



THIS COLUMN OFFERS EXCERPTS FROM PUBLISHED SOURCES TO PROVIDE OTHER VIEWPOINTS.

## Regulatory Changes Present a Unique Opportunity in Canada

Roger Conrad writes: Dividend cuts are always best avoided. But as experienced income investors have learned, they can also be compelling buying opportunities, provided they mark a true bottom for the underlying business ... Macquarie Power & Infrastructure Income Fund (MPT-UN 6.44 TSX) announced its move September 29, the conversion the most visible result of a sweeping strategic review to prepare the trust for pending 2011 taxation. The plan is to maintain the current dividend rate of 8.75 cents Canadian per month through the end of 2009, fulfilling a pledge management made repeatedly this year. Then, beginning Jan 1, 2010, the distribution will be cut to 5.5 cents Canadian per month. The cut is part of a plan to convert the trust into a "dividend-paying corporation" for 2011 and beyond ... Going forward, management's targeted payout ratio for the next five years is 70 to 75 percent of distributable cash flow generated by the trust's assets. The reduced dividend rate falls well within that range, includ-

ing the impact on future cash flows of the new taxes – projected at 29 percent of taxable income – and needed maintenance capital expenditures for its power plants. Management will continue to pay dividends from distributable cash flow rather than earnings per share, thanks to its ability to reduce taxes with non-cash expenses like depreciation. Coupled with the underlying stability of Macquarie's assets, that's a solid vote of confidence for the new dividend rate, which at the trust's current unit price is more than 11 percent. Equally important, however, these strategic moves mark a commitment by Macquarie Power & Infrastructure and its parent to return to asset growth ... It's that growth that will drive Macquarie's future returns. The shares are up roughly 46 percent in U.S. dollar terms thus far in 2009. But after the one-day drop that followed the distribution cut, they're at barely half the all-time high reached in mid-2007 and trade for just 97 percent of book value. Throw in the fact that 2011 taxation is no longer an issue for Macquarie units and you've got a tremendous amount of upside for

what's basically a very conservative, high-yielding play on essential services. Buy Macquarie Power & Infrastructure Income Fund up to USD8 if you don't have a position already. **Dick Davis Income Digest (US\$197, 24 issues), PO Box 2049, Salem, MA 01970 (978) 745-5532 (10/09)**

## Water-Based Investments

*I am interested in investing in companies that are in the water resources business. I think it is a no-lose long-term investment as everyone needs water, and it can also offer inflation protection.*

You are right in that everyone needs water, but whether it is a good investment or not is another issue. Many water utilities are owned by municipalities, and many of those that are not are regulated by government entities. Increased profits can come from growth in the customer base, but with the current housing problems, it's doubtful if we can see much growth for some time to come.

Other than utilities, there are industrial companies that provide water-resource equipment, and other companies that sell bottled water, although in most cases the revenue tends to be small when compared to their other business activities. As far as inflation protection, the price consumers pay for water will likely rise with inflation, but profits from selling water-based resources may not increase correspondingly. There are

better, more direct ways to protect against inflation as readers of this newsletter know.

If you are convinced that water-based investments are a worthy addition to your portfolio, we would recommend that you look at the PowerShares Water Resources ETF (PRO), and for a wider net of companies, the PowerShares Global Water ETF (PIO).

**No-Load Portfolios (US\$109, 12 issues), 8635 W. Sahara, #420, The Lakes, NV 89117 (11/09). See member benefits.**

## Why DRIPs? Why Now?

Reporters often ask why investors should use Direct Investment Plans, or DRIPs, and usually seek an answer related to the current market environment. That last part is tricky because DRIPs are the antithesis of a market timing strategy; they are a great way to invest, no matter when "now" happens to be. In fact, avoiding the emotional decisions made by the typical investor may be their greatest strength. A more complete answer might involve what we sometimes call the Four Ds – Dividend reinvestment, Dollar-cost averaging, Diversification, and Discipline – all important issues that these plans address. Ibbotson Associates, now part of the Morningstar Group, has reported that dividends accounted for about 40% of investor return since the mid-1920s. Reinvesting those payouts adds the "miracle of compounding" to those returns, and DRIPs allow every penny to do so

because they buy even fractional shares. Dollar-cost averaging spreads investment dollars (and pricing risk) out over time, avoiding the usual tendency to buy at market tops (out of greed) and sell at market bottoms (out of fear). Given the long-term upward trend in stocks, an investor's cost basis ends up being much lower than the value of the shares that he or she accumulates. This technique is especially easy to accomplish with DRIPs, since most allow investments of as little as \$25 or \$50. Diversification can be accomplished just as easily, since such small amounts can be spread among many companies, reducing the risk of being too heavily committed to one or two equities. The typical investor might save up thousands of dollars to buy 100 shares of a stock (which he or she may buy at a premium). For the same amount, he or she could invest in 10 or even 20 companies. The final D, Discipline, can be achieved either automatically (through monthly bank drafts) or through the encouragement of habit (seeing the shares and fractions accumulate with each quarterly reinvestment and optional cash purchase). So the real question should be: Why doesn't everyone use DRIPs?

**Direct Investing**  
**(US\$199, 24 issues), 555 Theodore Fremd Avenue, Suite B-103, Rye, NY 10580 (914) 925-0022 (11/09)**

## Payout Packs A Punch

Even small dividends can generate big returns if you give them time to grow. The *Forecasts* has consistently advised readers not to buy the highest-yielding stocks. They tend to be more volatile than the average stock yet do not provide any excess return.

While the *Forecasts* considers capital gains and income return of equal value (to us, a 10% gain and 0% yield is of the same value as a 6% gain and a 4% yield), we acknowledge that many subscribers are concerned about income. With that in mind, the table below contains a diversified portfolio of 10 stocks with payout ratios below 50% (a stock's payout ratio is the percentage of earnings paid out in dividends), yields of at least 1%, and a history of dividend growth.

Two of those stocks are reviewed in the following paragraphs:

- Aflac (\$43, AFL), a low-cost provider of supplemental life and health insurance in Japan and the U.S., is delivering solid growth in operating

profits despite the recession. But its investment portfolio, vulnerable to the fate of European banks, has kept the company in limbo. Until those investment-related fears are resolved, Aflac must rely on strong operating performance and a sound balance sheet to win Wall Street's affection.

- To cope with the falling sales, IBM (\$120, IBM) has taken aggressive cost-cutting measures. With revenue growth likely to resume in 2010, the computer giant is well positioned to sustain brisk profit growth. The company holds \$12.53 billion in cash, or \$9.55 per share, on the strength of growth in operating and free cash flow.

**Dow Theory Forecasts**  
**"Buyer's Guide to the Best Dividend and Income Investments"**  
**(US\$39.97, 4 issues), 7412 Calumet Avenue, Hammond, Indiana 46324-2692 (800) 233-5922 (fourth quarter 2009)**

### STANDOUT INCOME SELECTIONS

Company (Price, Ticker)	Dividend	Yield	5-Year Annualized Div. Growth	Dividend Payout Ratio	Estimated Long-Term Profit Growth
Aflac (\$43, AFL)	\$1.12	2.6%	24%	25%	13%
AstraZeneca (\$45, AZN)	2.09	4.6	21	36	-1
Chevron (\$70, CVX)	2.72	3.9	12	36	5
Cooper Industries (\$38, CBE)	1.00	2.7	7	35	11
Exxon Mobil (\$69, XOM)	1.68	2.4	10	28	5
General Dynamics (\$65, GO)	1.52	2.4	17	24	8
IBM (\$120, IBM)	2.20	1.8	25	24	9
Johnson & Johnson (\$61, JNJ)	1.96	3.2	13	43	8
Lockheed Martin (\$78, LMT)	2.52	3.2	22	33	11
Microsoft (\$26, MSFT)	0.52	2.0	26	31	10
PepsiCo (\$59, PEP)	1.80	3.1	19	49	11
Walgreen (\$37, WAG)	0.55	1.5	21	27	13