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Retire Rich... Retire Early.

How to Use Election-Year Volatility to Earn a 70% Yield

For a lot of investors, it was a nightmare.

Only it was one they couldn't wake up from.

In August 2011, the S&P downgraded the United States' credit rating. The country's coveted AAA was gone for the first time ever.

The reason was simple and blunt: The government's ability to manage its finances was in question due to stalemates caused by partisan politics.

The markets were gut-punched.

The S&P 500 Volatility Index (VIX) more than tripled. It leapt from 15.95 at the beginning of July 2011 to 48.05 by August 8.

The Dow Jones Industrial Average plunged 2,000 points. In just 14 days of trading, the index lost 16% of its value. The S&P 500 had a nearly identical collapse.

It was widespread panic. And investors watched their gains get wiped out practically overnight.

Unfortunately for many investors (though fortunately for those with iron stomachs, as you'll soon see…), for several years now we've dealt with this constant specter of intense, sudden volatility.

In part, it's caused by political roadblock. Part headline-driven markets. Part unease over whether the United States or Europe can ever fully recover. And part a lack of confidence from investors – billions have left the markets and may never return.

Here's what everyone has to understand and get drilled into their brains: The volatility isn't going to stop any time soon… In fact, it's likely to get a lot worse. Particularly with this year's election in the United States.

You see, the same problems that caused the market plunge in 2011 still exist. The U.S. deficit is a major hurdle – and not just in the halls of Congress – but on Wall Street.

More bickering. More political posturing. More unwillingness on both sides to bend, to come to an agreement, is going to have devastating impacts on your portfolio. And Congress couldn't care less… Their retirement is secure, paid for by your tax dollars.

So, you have to ask yourself: Are you going to be a victim? Are you just going to sit there and watch the losses in your portfolio pile up? Watch your hard-earned dollars slip away as your retirement nest egg dwindles?

We have to come to terms with the fact that volatility is a two-sided coin. It can cause losses…

But it also provides smart, opportunistic investors an historic opening. Enabling us to do something that

seems almost unbelievable – to *earn a 70% dividend yield,* as well as pocket massive returns.

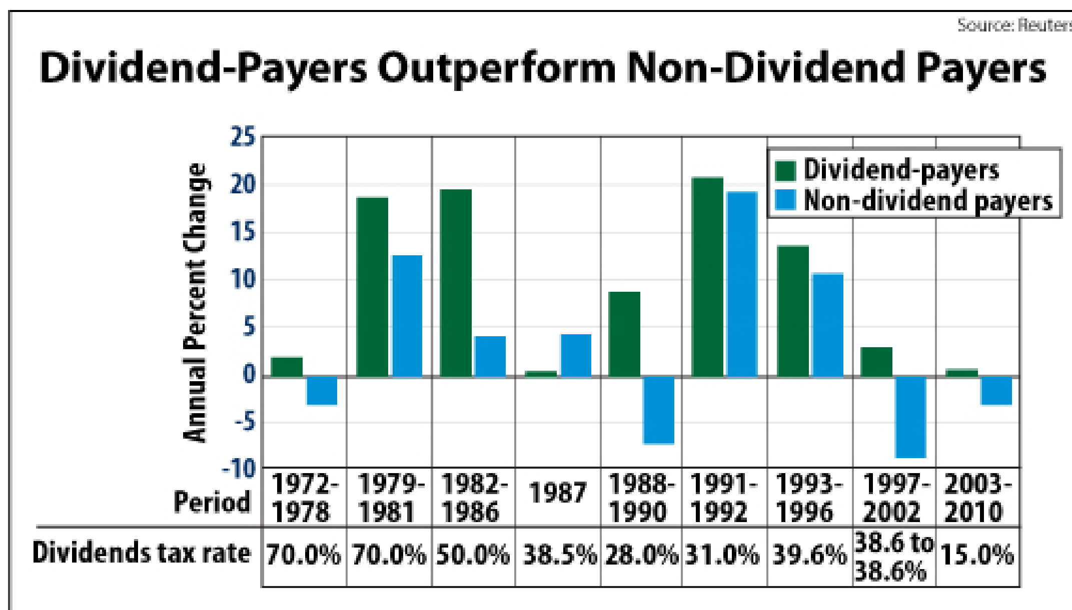
Think about that for a second… You can have the chance to get paid $0.70 in dividends for every $1 invested in a company's stock. And better yet, you profit twice as that company's shares increase in value, too.

Talk about a *win-win*!

By focusing on solid growth companies that pay a healthy dividend at an extreme value during a market downturn, you have an upside that is almost limitless.

It's an upside that can salvage your retirement, as well as your portfolio. An upside that allows you to live a retirement wealthy and pass those lessons on to your children and grandchildren.

Here's the real kicker in all of this: We already know that dividend-paying companies have outperformed non-dividend-paying companies by more than *1,700% over the last three decades.*



Dividend-payers are sure-fire investments to help you beat the market and make sure your portfolio is constantly growing… And your portfolio grows not only as these companies tick their way upward, but also as you put those dividends to work for you. The potential is impressive, as you'll soon see.

And these types of stocks should – at the very least – be the foundation of every investor's portfolio.

We have a saying here in the halls at *Wealthy Retirement*: "There's no such thing as bad news, only opportunity."

And that is a golden rule we live by. You should, too…

The Secret Every Investor Forgets

In my 20s, I learned a very profound lesson. To this day, it still sculpts the way I view investing and market opportunities.

I was just starting out seriously in market analysis, honing my focus on commodities. At the time, the markets were very choppy and volatile. And one day, during a particularly big drop, I turned to the markets editor I

worked with and asked if this was the end – if this was the start of another crash.

He just shrugged and said, "Eh… Don't let fear guide you. That's the mistake most people make. I'll let you in on a little secret. And this is something the vast majority of investors forget and will continue to forget. The markets ultimately only move in one direction…"

He told me to pull up an historical chart of the Dow. In those days, we were below 10,000. He said, "People are going to see today and panic. Tomorrow, it might be a different story. The shorter the period of time you look at, the more volatile everything appears. But the further out you look, the longer your horizon, the reality of the situation becomes less jagged. And you see the markets ultimately only move in one direction: up. That's the secret…"

He taught me there will always be doom. There will always be sell-offs. There will always be blood in the streets. But don't look at those necessarily as bad omens or reasons to exit.

Those are the best opportunities you'll ever be provided.

It was one of those quiet, "Aha!" moments. And it's guided me ever since. Particularly in dividend investing.

We all know there will be days, weeks, and even months that we might lose money, that the markets will turn down. But in the end – if we don't get caught in the tide of panic, if we don't rush to the sidelines and hide – we'll always come out ahead.

During the next several years after that conversation, the Dow doubled… Then suffered an epic collapse during a brutal 18-month stretch… Then doubled again…

There's that echo: "There's no such thing as bad news, only opportunity."

A Valuable Starting Point From the World's Greatest Dividend Investor

The "Oracle of Omaha," Warren Buffett, is the world's most famous dividend investor. He's built an empire worth tens of billions of dollars using this strategy.

And his approach at times is mind-bogglingly simple, yet just as mind-bogglingly successful. He uses a dividend reinvestment approach, or what's called a "DRIP," where the dividends he receives from a stock are used to buy more shares of that stock.

It's a constant churning that delivers results that are eye-popping.

Between 1988 and 1994, Warren Buffett pumped $1.3 billion into shares of **Coca-Cola** (NYSE: KO). The company is part of an elite group of dividend-payers, known as "Dividend Aristocrats," which have raised their dividends every year for at least 25 years.

The impacts of this approach to investing was seen in the 2010 Berkshire Hathaway letter to shareholders, where Buffett revealed the power of Coke's increasing dividend:

"Coca-Cola paid us $88 million in 1995, the year after we finished purchasing the stock. Every year since, Coke has increased its dividend. In 2011, we will almost certainly receive $376 million from Coke, up $24 million from last year. Within ten years, I would expect that $376 million to double. By the end of that period, I wouldn't be surprised to see our share of Coke's annual earnings exceed 100% of what we paid for the investment. Time is the friend of the wonderful business."

Now, just chew on that for a second… Currently, Coke's dividend yield is around 2.8%. For Buffett, based on his original investment in 1995 he enjoyed a yield of almost 7%. Not bad… But it's not what made him a billionaire.

Today, Buffett expects a yield-to-cost of almost 30%. By 2021, *it'll be almost 100%!* That means, after 2021, Buffett will be receiving over $1.3 billion per year in dividends just from Coke – his entire original investment paid back to him *every single year*… And that will increase, to more than his original investment as the years go on.

But Buffett wasn't buying into what now has become every investor's ally: volatility. He was using his immense wealth as a buffer.

So, before we get into how you can *earn a 70% yield* using this election year's market volatility, let's look at a few historic examples of how much more effective it is to use the market's volatility as a tool for growth and not see it as a reason for panic…

Example #1 – Big Yields in the Wake of "Black Monday"

On Monday, October 19, 1987, the Dow Jones Industrial Average tumbled 22%.

As is usual with big drops, a lot of investors lost their minds. But the savviest of investors walked away rich. Remember, a day does not make the market, nor does a week or a month.

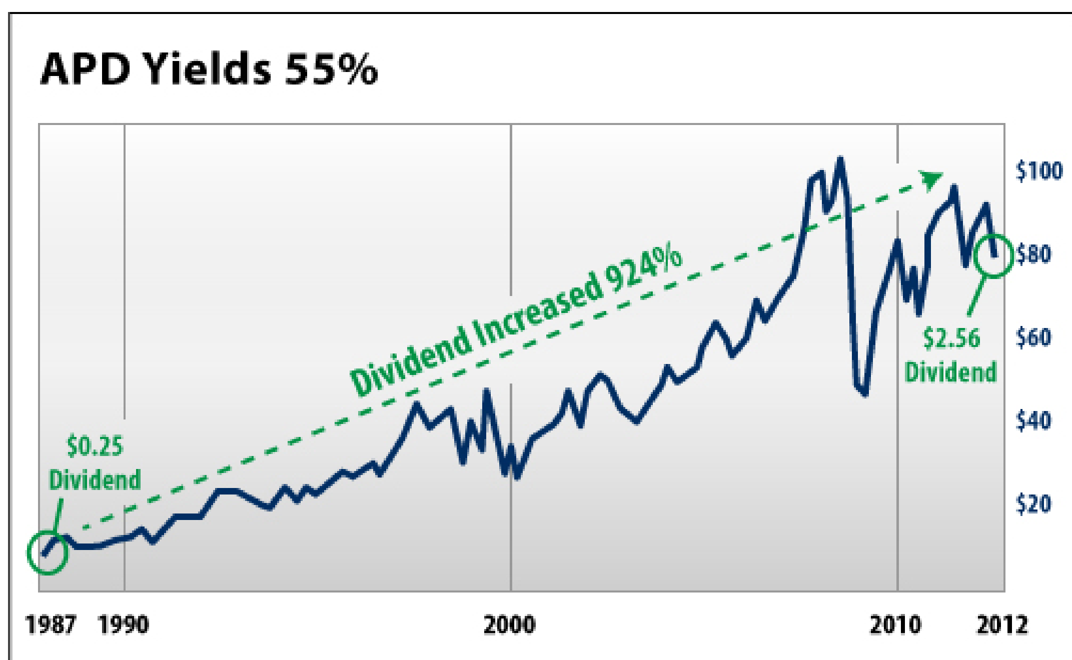
Even though the losses were dramatic on Black Monday, the markets still ended positive by double digits for 1987.

If you'd invested a mere $10,000 into Dividend Aristocrats in October 1987, days after the crash, you'd be sitting pretty today.

Let's use **Air Products & Chemicals** (NYSE: APD) as an example.

Your $10,000 investment on October 27, 1987 – a whole week after Black Monday – would snag you 294 shares at a purchase price of $34. The company was paying a $0.25 dividend at the time.

Now, on the surface, that seems fairly paltry. Your original annual dividend payments would be just $73.50. But the company has increased its dividend each year, and those payments have increased almost 925%!



Today, because of those increases, you'd be receiving $752.64 in dividend payments per year. And you would've earned a total of $27,550 in dividend payments. Those dividend payments alone would give a return of 175.5% on your original investment.

But through simple price appreciation, you'd also be sitting on practically an *850% return*. Your original $10,000 is now $94,942… Not bad.

But here's the secret everyone complains and harps about because it's "too boring:" The real power in dividend-payers is tapping the strength of dividend reinvestment…

If you'd used a DRIP on your Air Products & Chemicals investment, your original $10,000 in 1987 would now be an impressive *$163,081 today! That's a 1,531% return!*

Now we're talking.

You'd also own 1,138 shares, almost four-times more than your original 294. And your dividend payments each year would top $2,931 – *a 289% increase over a simple buy-and-hold strategy!* Plus, that $2,931 – equal to 29% of your original investment – is buying new shares, which at today's prices is around another 30 shares for 2012.

And on an adjusted close basis, your current dividend yield would be a staggering *55%*.

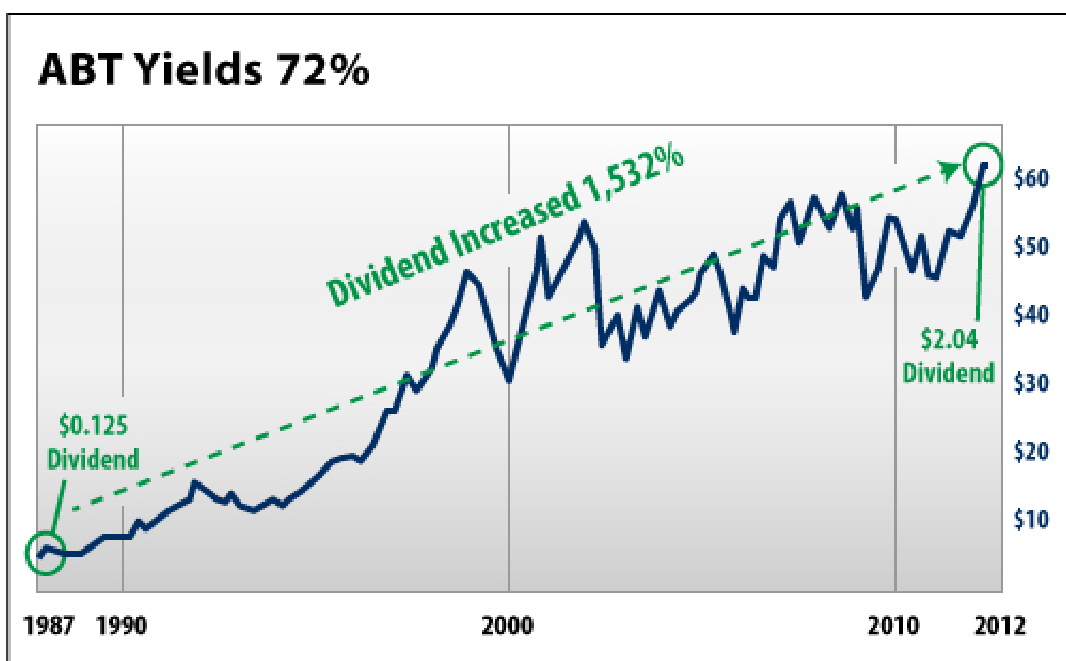
But there's more…

Let's stick with the volatility of 1987 and a true Dividend Aristocrat that's paid a dividend since 1924.

Investing $10,000 into **Abbott Labs** (NYSE: ABT) in December 1987 would earn you an annual double-digit return since then.

Your original investment would give you 201 shares at a price of $49.75. At the time, Abbott's dividend was a mere $0.125. That's nothing to write home about, $25.125 per year being taken home in dividends.

But Abbott is a notorious dividend-payer, and recently announced its 354th consecutive quarter of paying a dividend. It also increased its dividends by *1,532%* since 1987 and is now paying $2.04 per share.



And here's where the numbers really start getting impressive…

Since December 1987, you'd have collected *$31,176* in dividend payments. That's a return of 211.76% on your original $10,000 investment in just dividends alone.

And just holding the shares – not using a DRIP – you'd be sitting on $104,314.51 – a gain of nearly *1,000%*!

But an Abbott DRIP would be your big payout…

Your dividends working for you during those 25 years would give you *$183,222* and your total number of shares held would increase from 201 in 1987 to *1,608!* That's $3,280 you'd earn in dividends this year. And that would be going back into the market, buying even more shares.

And on an adjusted close basis, your dividend yield would be an almost unbelievable *72%!*

So remember, if someone tells you dividend investing is boring or "for old ladies," you ignore them. While they're chasing micro-cap and small-cap stocks, trying to even out their losses with intermittent homeruns, your portfolio – this foundation – is churning away real money.

Example #2 – Big-Time Yields With a Deepwater Specialist

Now, the preceding examples show how targeting dividend-paying stocks during downturns can pay out big. But you're probably asking, "What if I don't want to wait that long? I don't have 25 years."

Well, don't worry. We're in a far more volatile market than in 1987, and this volatility has been pushing and pulling at investors for years. So, we've had a lot of opportunities to take advantage of this and gain tremendous returns by having an iron stomach.

Panic is the death of investors, both big and small.

And one of the biggest mistakes most investors make is panicking during a market downturn. But remember: those are our times to score big… Even if we invest a small amount.

During the 2008 and 2009 market pullback, there were almost limitless opportunities. For crisis investors, it was the glory days. And for dividend investors, as well.

November 2008 was a perfect example. The deepwater driller **Seadrill** (NYSE: SDRL) – like almost all stocks – suffered a major pullback. But for this high-yielding dividend-payer, the opportunity to investors was extraordinary.

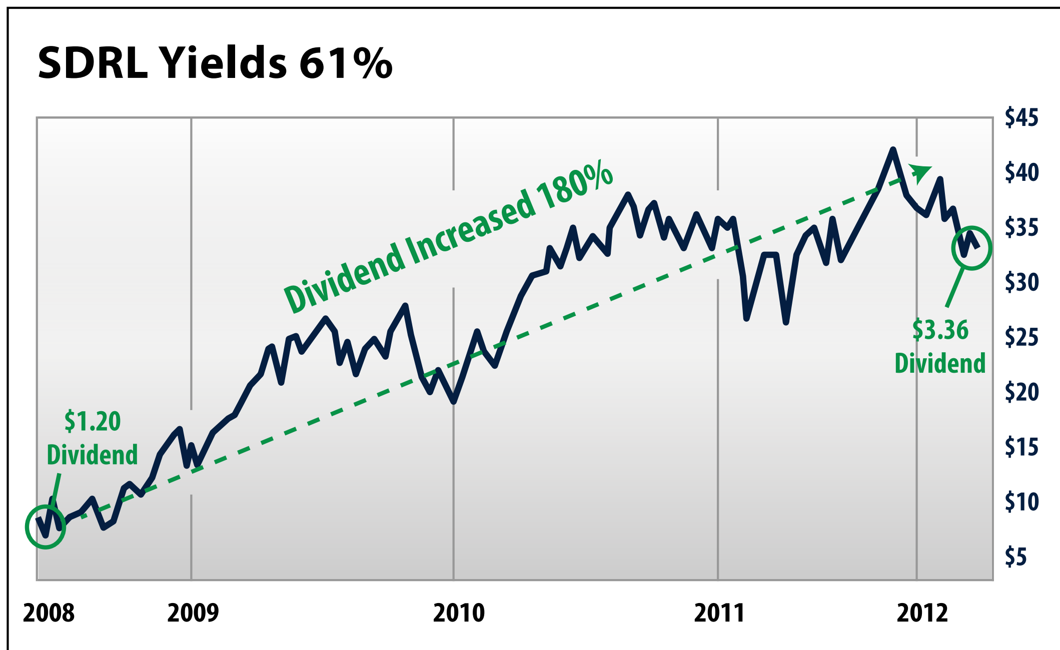
Seadrill owns the second-largest ultra-deepwater (UDW) rig fleet in the world. It runs the most *modern* fleet in the offshore drilling industry.

But in the offshore drilling sector, companies like **Transocean** (NYSE: RIG), **Noble** (NYSE: NE), **Ensco** (NYSE: ESV) and **Schlumberger** (NYSE: SLB) grab the majority of the headlines.

So, even though it's the world's largest offshore driller, the company flies under most investors' radar. Perhaps it's because Seadrill is relatively new, formed only in 2005.

Let's say you invested $10,000 into Seadrill in November 2008. That'd get you a nice chunk of shares (1,834) at the extremely oversold share price of $5.45.

Seadrill was paying $1.20 per share in dividends in 2008. So, even then, that was a yield of over 22% on your cost basis at $5.45. It's a yield too high to ignore, even during a global financial cataclysm.



Now, if you bought those 1,834 shares for $10,000 in November 2008 and held them, you'd have received $14,332 in dividend payments since then.

In just dividend payments alone, you gained 43% over your initial costs… Again, that's just dividends in just under four years. And the company is increasing its dividend at an average annual rate of 36%.

Of course, shares of Seadrill skyrocketed 557% in value during that same span. So, *in just four short years, your $10,000 transformed into $65,716!* It was a great investment.

But let's focus on the dividend.

Now, the deepwater driller's current yield is an outstanding 8.4% at $3.36 per share. Income investors continue to flock to the stock. *But if you acted aggressively while everyone else was heading for the hills, on your original cost basis, your dividend yield today on Seadrill would be a whopping 61%!*

In less than four years!

Even if you didn't reinvest the dividends, just for 2012, you'd be earning *$6,015.52* in dividend payments – or 60% of your original investment!

But again, that power is in the DRIP… And you'll see just how much that simple strategy can boost your returns in a short period of time.

A DRIP on Seadrill starting in 2008 would increase your return by *more than 30%!* Reinvesting those dividends back into the stock means you'd now have *$84,724!*

That's a 747% increase in less than four years.

And your number of shares would increase to 2,364, meaning your expected dividends for 2012 would be *$7,753.92 – 77% of your original investment of $10,000!*

Even investing $10,000 in **Apple** (Nasdaq: AAPL) at its lowest point in 2008 wouldn't have done as well for you.

So, now that you know the power this strategy holds, what should you be looking for this year?

Election-Year Play #1 – An Election-Year REIT for Enormous Yields

On October 1, 2011, Medicare reduced payments to nursing homes by 11.1%. Plus, there'll be another 2% cut coming if Congress can't agree on an additional $1.2 trillion in budget reductions.

While that's bad news for the nursing homes, it's only bad news for the REITs if the nursing home companies can no longer pay their rent.

There's one company that gets caught up in the healthcare debate, but is in a prime segment to benefit. **Omega Healthcare Investors** (NYSE: OHI) leases facilities to operators of nursing homes. The company has grown its dividend an average of 10.7% per year over the past eight years.

It's important to realize that Omega isn't in the nursing home business. So a lot of the types of Medicare issues making headlines don't hit its margins. Omega is the landlord. The company receives fixed-rent payments with annual increases from nursing home operators that have strong credit profiles.

If nursing homes want to stay in business, they'll continue to pay their rent.

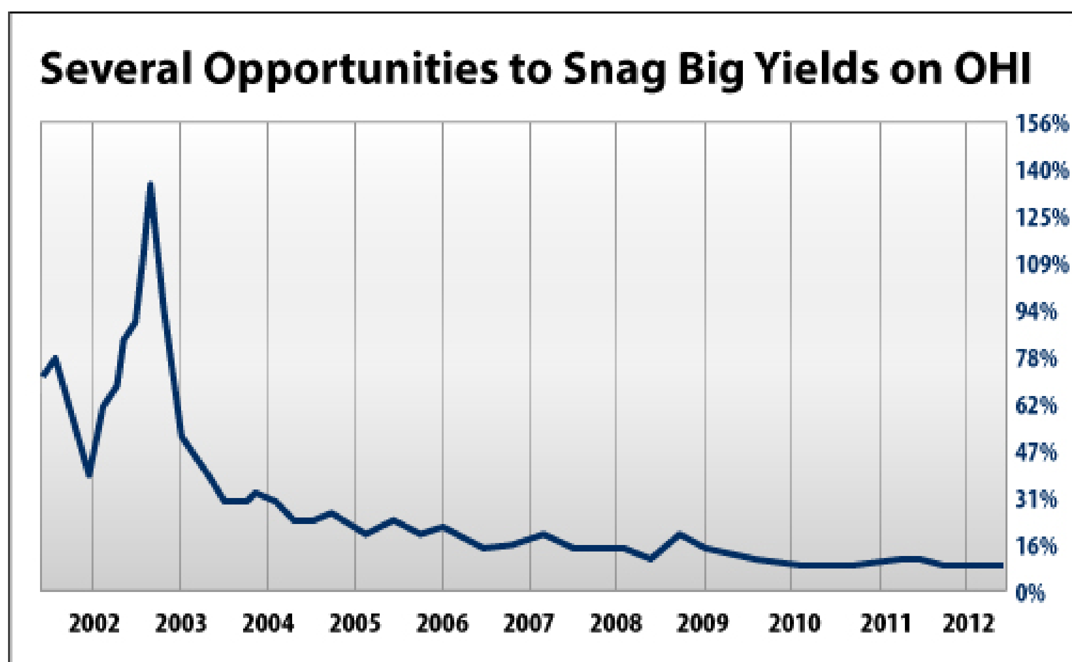
And Omega is in an even better position than many of its peers.

Nearly all of Omega's business comes from the skilled nursing (nursing homes) segment, which is precisely the group that got hit with the Medicare reduction. Comparatively, HCP has only 35% of its business tied to skilled nursing while **Health Care REIT's** (NYSE: HCN) portfolio consists of 26% nursing homes.

Omega currently offers a dividend yield of 7.1%. Over the last five years, it's seen consistent, strong growth at an annualized rate of 16.6%.

In turn, the company has grown its dividend an average of 10.7% per year over the past eight years.

Looking at the yield to cost chart below, we can see that Omega has offered us several opportunities in the last 10 years to snag a 70% or higher dividend yield based on its current payout…



The chart shows us that we could've bought in 2001, 2003 and into 2004 and we'd be sitting on a dividend yield

of 70% or more today.

But wait… Don't run out and buy Omega right now.

Passive investing strategies like targeting dividend-payers to get the best yields also requires us to be patient, as well as aggressive. We want to look for opportunities during broader market pullbacks.

And ahead of us is one of best buying stretches of the year – what some people refer to as "The Autumn Panic." But what we like to call "The Autumn Opportunity."

September and October are known as the worst months for stocks… October is notorious for crashes, sparking them in 1929, 1987 and 2008.

Since 1964, there have been 17 occurrences of the markets falling 10% or more during the autumn months. And in 10 of those, the majority of the damage was done in October.

And both September and October have averaged negative performances during an election year.

August used to be a great month for stocks. But it's been one of the worst months for stocks since the market crash in 1987. So, it hasn't fared much better… except in election years. So don't get suckered into buying early when you see the markets doing well this year in August. It should be short-lived.

Now, the question is: Why would anyone want to be sitting on the sidelines then? You look for openings in months like September and October. You go against the grain by picking your spots to grab the best, most profitable opportunities.

This year, as we head into that Autumn Panic stretch, the markets have a huge unknown on the horizon in November: Who will win the U.S. presidential election?

You better believe that the normal tugs and pulls we see will be exponentially greater.

And historically, Omega has averaged about a 15.5% slide between the months of August and November during the last four years. That would give you more than a full percentage point in dividend yield.

Remember, with this approach, time is your biggest ally (as well as market dips).

But let's say you buy OHI today at its current price of $23 – you don't wait for a dip. In a little more than 12 years – based on its past dividend growth rate, annualized share price increase and using a dividend reinvestment strategy – your original $10,000 would turn into $76,054! *A possible gain of 660%!*

Plus, in that span, you'd get paid more than *$40,656* in dividends. That's *306% more* than your original investment (and almost the entirety of your position's value if you didn't utilize a DRIP). And using a dividend reinvestment, your annual dividend payments in 2025 would be an estimated *$7,931*.

That's a 79% yield on your original $10,000 investment.

Now, if you wait for that pullback – you start off on the right foot and your original investment goes farther – your returns get substantially higher.

Just using the same growth rates as before, buying shares of OHI at a 15.5% discount to its current price would transform your $10,000 into *$92,652! A possible gain of 826%!*

Plus, in that span, you'd get paid more than *$54,000* in dividends. That's *440% more* than your original

investment. And by using a dividend reinvestment plan, your annual dividend payments in 2025 would be estimated at $11,458.

That's 10% more than your original investment! You'd be yielding more in one year than your entire initial $10,000 cost.

Action to Take: *Buy* ***Omega Healthcare Investors*** *(NYSE: OHI) at market – but not until November. Make sure it is less than 1% of your portfolio.*

Election-Year Play #2 – The Recession's Forgotten Sector

The global recession hit one sector exceptionally hard: dry bulk tankers.

For four years, the shipping industry has suffered through one of the worst downturns… And the casualties have started to mount up.

In July, one of Japan's older shipping companies, **Sanko Steamship**, filed for bankruptcy. The company started in 1934 and managed a fleet of 185 ships. And now it's the third major international shipper unable to keep its head above water in this difficult market.

But this doesn't mean there aren't opportunities here. The sector has been completely hammered. And that means there are tremendous opportunities to snag large companies at a great value, and also earn a substantial dividend yield.

That's where **Knightsbridge Tankers Limited** (Nasdaq: VLCCF) comes in… It has survived the tanker industry collapse through its portfolio of long-term contracts. But this is a play that not only offers significant upside, but also is handcuffed to some significant risk.

Based out of Bermuda, the shipping firm transports crude and dry bulk goods around the globe. Over the last year, shares of Knightsbridge have tanked – down about 50%.

But it's still making money, still has strong profit margins and is trading below book value.

Plus, as long as 50% of the dry bulk trade – around four million metric tons – heads toward Asia, demand in the dry bulk market will be robust. Regardless of the United States and Europe.

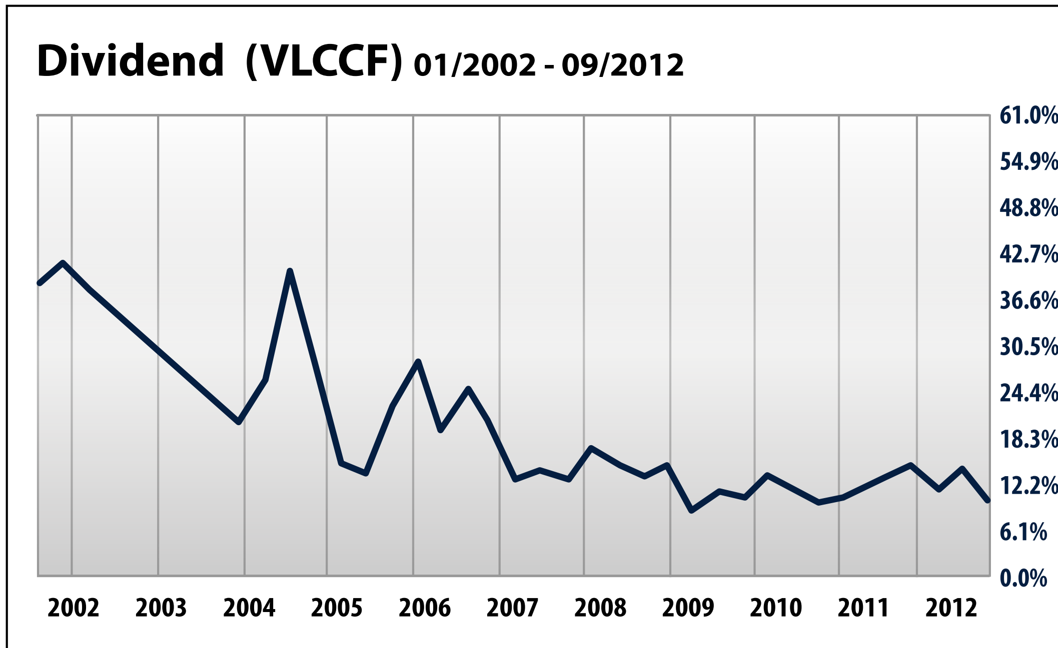
Because this seaborne trade is all about steel and thermal coal heading to major consumers, such as China and India. These two countries will be increasing their demand for both of these products in the years ahead. And steel and thermal coal trade represent 70% of the dry bulk market.

Now, you already know that by using a DRIP, this isn't a short- or medium-term play. This is a long-term play wagering on the fact that the global economy will eventually be healed and rebound.

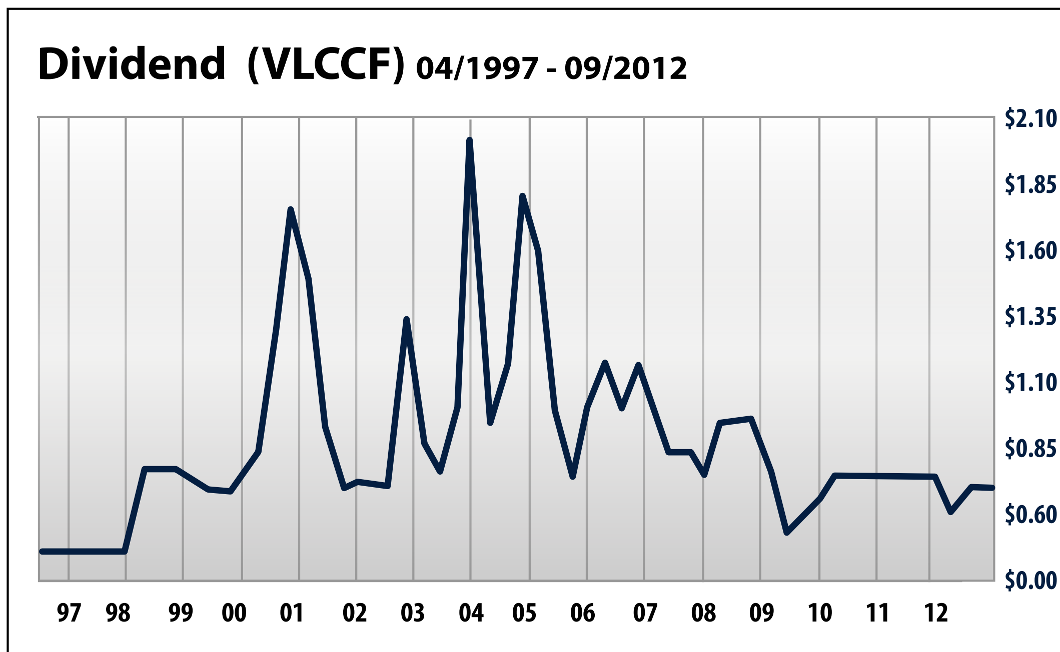
This is about patience and fortitude.

Historically speaking, if you'd purchased shares of Knightsbridge back in 2002 or 2004, you'd already be sitting on a yield over 42%…

And one of the best reasons we like Knightsbridge right now is, at current share prices, its dividend yield is already an enticing 10.60%.



Knightsbridge pays a dividend based on its cash flow and revenue. So it does vary from time to time. And as the company does better, its dividend increases.



This is a company we don't necessarily want to wait on. Shippers fare better in the latter half of the year as seaborne shipments surge.

Let's think about this… Here is a company with prospects for major growth and whose profits are a couple years away. Right now, its share price is really low around $6.70. It's trading just near its 50-day moving average and substantially below its 200-day moving average… And Knightsbridge's book value per share is $14.05.

From a simple investment standpoint, that means if Knightsbridge was liquidated today, an investor would hypothetically walk away with a profit of $7.35 per share…

At modest growth rates, assuming that share prices continue to grow at its current annualized rate of 5.57%

and its dividend increases at a mere 4.9% per year, a $10,000 investment today using a DRIP program could earn you more than *$71,680* in 10 years.

That's a return of *616%!* And, your dividend payments in 2022 would be an estimated *$9,302! That's a 93% yield on your original $10,000 investment!*

Even in year nine of your investment, you'd be pulling in over $7,000 per year in dividends… Not a bad return on your investment.

Action to Take: *Buy* ***Knightsbridge Tankers Limited*** *(Nasdaq: VLCCF) at market. Make sure it is less than 1% of your portfolio.*

Everything You're Told About Investing is Wrong…

The most important aspect to remember about dividend investing is time.

Young investors are woefully guided on how they should invest. They're told to take on higher-risk investments because they have the time to make back any losses they incur.

That's idiotic. Let's call it what it is: Short-sighted.

Younger investors can turn very small sums of money – $10,000 – into millions. And that's even if a stock trades flat but the company raises its dividend each year. Because younger investors have the most valuable commodity at their disposal: time to allow the magic of compounding to really work.

Older investors, those approaching retirement or enjoying their retirement, need to be more aggressive… Even when looking for income. They need to harness the positives of the market's volatility to get the most for their money.

The examples we've provided here show that time and dividends are the best friends any investor can have. But you can't be passive about passive investing strategies. You need to go against the grain: Buy into sell-offs. Don't panic during them.

MATTHEW CARR is the Managing Editor of *The Oxford Insight*, Editorial Director for *Wealthy Retirement* and *Breakaway Wealth*. For the past decade, Matt's main focus has been the oil and gas sector, learning the nuts and bolts from the wellhead on up. He's also worked extensively on other commodity markets, with particular interest paid to precious and base metals, and agricultural products like corn, coffee, sugar and soybeans. His professional experience includes financial and risk analysis, emerging markets, business-to-business credit and corporate bankruptcies. This knowledge enables him to take a true bottomup approach to investing and use market volatility as an advantage.

WEALTHY RETIREMENT

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