Taking Stock: 9 nail-biters that just might pay

by Malcolm_Berko

Dear Mr. Berko: I want to invest about $14,000 in some high-yielding common stocks and some high-yielding preferred stocks that have been beaten down by the market and I want at least a 13 percent dividend. I'm willing to take a big gamble with this money, which is an unexpected tax refund because we grossly overestimated our income for 2007 on our quarterly payments. We will be investing this money in our "speculative retirement" account.

T.S.

Vancouver, Wash.

Dear T.S.: OK, here are some critically dangerous, implosion-prone, high-yielding issues, the dividends of which exceed 13 percent. I and two others wiser than I believe that the recent selling in these issues has been brutal, in excess of what is reasonable and in sympathy to related issues the prices of which deserved to be much lower. A 13 percent yield may be your magic number, but to many folks is considered bad luck.

On a risk scale of 1 to 10, with the smallest number measuring the lowest degree of risk, I would ascribe a "13" to each of these issues. However, there's a caveat - two analysts whom I've known for years, one from Merrill Lynch and the other from Goldman Sachs, believe these issues may have lasting life, lasting dividends and would recommend them in small doses to high-risk accounts that enjoy the challenge of playing poker with a stacked deck.

RAIT Financial Trust 7.75 percent Series A Preferred (RAS-A-$10.70) matures at $25 a share on March 19, 2009, pays $1.94 and yields 19 percent. The company offers debt financing options to the real estate industry as well as originating and investing in various classes of mortgages the common (RAS-$7.20) yields 32 percent.

NorthStar Realty Finance Corp. 8.25 percent Series B Preferred (NRF-B-$13.70) matures at $25 on Feb. 2, 2012, pays a dividend of $2.06 with current yield of 15.2 percent. NRF originates, acquires and structures real estate loans secured by income producing real estate. The common stock (NRF-$8.50) yields 16.4 percent.

Anthracite Capital Corp. 8.25 percent (AHR-D-$13.50) 8.25 percent Series matures on Feb. 12, 2012 at $25 and the $2.06 dividend yields a healthy 15.3 percent. AHR is managed by BlackRock Advisors and purchases portfolios of commercial backed mortgage securities and issues bonded debt backed by these assets providing new capital for the real estate industry. The common stock (AHR-$6.90) yields 16 percent.

iStar Financial (SFI-G-$13.30) Series G matures on Dec. 19, 2008, at $25 and the $1.91 dividend yields 14.2 percent. SFI provides custom financing to high-end private and corporate real estate ventures. The common stock (SFI-$26.07) yields 12.6 percent.

Now note that each of these above preferred issues has a short maturity and that the difference between the current market price and the maturity value creates a "yield to maturity" which is significantly higher than their current yields.

The common stock of CapitalSource Inc. (CSE-$10.40) provides investors with a 21.2 percent yield a portion of which is nontaxable because it is considered a return on principle. CSE is a specialized finance company that provides capital to small and medium-sized businesses.

Penn West Energy Trust (PWE-$27) acquires, develops and owns oil and gas properties in Canada. PWE's dividend of $4.06 gives investors a 15.10 percent current return.

Harvest Energy Trust (HTE-$22.40) engages in the exploration, production and sale of natural gas and oil properties in Canada. HTE's dividend of $3.51 yields 16.5 percent.

Allied Capital Corp. (ALD-$19) is an investment firm specializing in buyouts, acquisitions, recapitalizations for small to medium-sized businesses. The $2.60 dividend yields 13.4 percent.

Ares Capital Corp. (ARCC-$12.70) is a business development company that specializes in acquisitions, recapitalizations and leveraged buyouts. The $1.68 dividend yields 13.2 percent.

If you purchase 100 shares of each of these issues they will cost you just about $14,000 with commissions and they should pay $2,200 dividends over the next dozen months. And that's a swell current yield of 16.1 percent. And don't cherry-pick. If you do I can give you a guarantee that the issues you pick will probably omit their dividends and crash in price while those you don't pick will probably increase their dividends and double in value.

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