5 Top Income Stocks

Companies that pay solid dividends have consistently outperformed the stock market indices. Since 1972, according to Ned Davis Research, the performance of companies contained in the Standard & Poor's 500 Index that pay dividends have crushed the performance of companies in the Index that don't pay dividends by an average of 5.8% per year. If you had invested $50,000 in the dividend payers in 1972, your portfolio would now be worth $1,172,470 after reinvesting dividends. During that same period, your portfolio of non-dividend payers would have grown to just $202,062. If your goal is to make money, earn market-crushing returns and keep your wealth protected, then we strongly advise loading your portfolio with dividend-paying companies. Below we offer five companies that will produce noticeable capital gains and provide above-average dividend yields during the next 2 to 3 years.

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Income Stock #1:
Aegon NV (AEG) is a leading Dutch international insurer that offers life insurance and other financial products. AEG's concentration on more profitable sales is boosting profit margins. And AEG's aggressive expansion into the Eastern Europe and Chinese insurance markets is boosting sales volumes, but start-up costs are reducing earnings in 2005. In 2006, higher interest rates will add significant income from the company's $130 billion bond holdings and will spur annuity sales that slumped in 2005. AEG shares sell at 10.7 times current earnings and the dividend yields 3.3%. Our Minimum Sell Price for AEG is $21.95. We recommend that you buy AEG now and sell when AEG shares reach our Min Sell Price, which is very likely within the next 2 years.

Income Stock #2:
BP plc ADR (BP) is the third largest publicly owned oil company in the world. BP experienced somewhat slower growth in the second half of 2005 because of damages from hurricanes Katrina and Rita. In addition, the startup date for a major project in the Gulf of Mexico will be delayed by 6 to 12 months. New ventures in Turkey and Angola will create additional volume growth in 2006 as will more normal operations in the Gulf of Mexico. The current weakness in BP shares presents an excellent buying opportunity for value investors. BP sells at 9.9 times current earnings per share. The dividend yield is 3.3% per year. We believe that BP shares will reach our Minimum Sell Price of $85.53 within 1 to 2 years.

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Income Stock #3:
Hospitality Properties (HPT) is a real estate investment trust (REIT) that acquires and leases hotel properties throughout the U.S. HPT's 297 hotel properties are located in 38 states. Typically, HPT owns each of its properties and leases the hotel to a hotel property management group such as Marriott. New management agreements and recent acquisitions will provide abundant revenue and dividend growth. HPT's balance sheet is strong with a low 33% debt to capital ratio. The hotel industry has endured a significant slump during the past several years after business and leisure travelers cut back their expenditures following 9/11. We believe that the industry will continue to recover, and that HPT provides a conservative conduit to participate in the recovery. HPT shares sell at a modest 10.9 times current funds from operations (FFO) and provide a generous dividend yield of 7.1%. We expect HPT to reach our Minimum Sell Price of $56.88 within 2 years.

Income Stock #4:
Old Republic International (ORI) is a general insurer that is benefiting from more stringent risk selection standards and a positive pricing environment. Rising interest rates will increase the income from ORI's $6.8 billion bond portfolio. ORI announced a year-end extra dividend of $1.00 per share that will bring the dividend yield to 6.4%. We expect ORI to increase earnings by 5 to 10% in 2006. ORI shares will likely reach our Minimum Sell Price of $28.80 within 2 to 3 years.

Income Stock #5:
PACCAR, Inc. (PCAR) manufactures heavy-duty trucks and is enjoying extraordinary growth. We have increased our EPS forecasts several times and continue to recommend that investors buy PCAR even though the normal business cycle for truck manufacturing could be nearing a peak. We expect EPS to increase by 12% in 2006. The company announced a year-end extra dividend of $2.00 per share. The shares sell at just 9.9 times current EPS and yield 4.2% including the $2.00 extra dividend. We expect PCAR shares to reach our Minimum Sell Price of $91.73 within 1 to 2 years.

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Sound Advice from the Teachings of Benjamin Graham

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