NEW AMERICA HIGH INCOME FUND INC
Form N-CSR
March 06, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-05399

THE NEW AMERICA HIGH INCOME FUND, INC.
(Exact name of registrant as specified in charter)

33 Broad Street, Boston, MA (Address of principal executive offices)	02109 (Zip code)

Ellen E. Terry

33 Broad Street

Boston, MA 02109
(Name and address of agent for service)

Registrant s telephone number, including area code: (617) 263-6400

Date of fiscal year end: December 31

Date of reporting period: July 1, 2008 to December 31, 2008

Item 1 - Report to Shareholders

February 13, 2009

Dear Shareholder,

The financial crisis that began on Wall Street in 2007 spread to Main Street in 2008. Investors found that there were very few safe havens from the market's extreme volatility and sharp price declines. As the economy entered a deep recession, risk aversion became the dominant theme of investor behavior. At times during 2008 the flight to quality seemed to result in near indiscriminate, panic-level selling by investors. Despite the diligent efforts of the Fund's investment adviser, T. Rowe Price Associates, Inc., the Fund's portfolio suffered significant price declines. Diversification into hundreds of issuers and a shift toward historically more conservative industries did not shelter the portfolio from the brutal market conditions.

The Fund paid common stock dividends totaling approximately $0.165 per share in 2008. The Fund will pay a dividend of $.065 per share in February 2009, which is unchanged from the monthly dividend paid since March 2008, after adjusting for January's 1-for-5 reverse stock split. Of course in the future the Fund's dividend may fluctuate as it has in the past. The dividend is dependent upon the portfolio results, market conditions, the degree and cost of leverage, and other factors. As measured by J.P. Morgan, the default rate in the high yield bond market increased in 2008 to 2.25% from 0.34% in 2007. Many market analysts expect the default rate to increase into the double digit percentage range in 2009. A total of 42 high yield debt issues defaulted in 2008. In January 2009, eleven issuers of high yield debt defaulted on debt payments. In 2008 and through the date of this letter, the Fund's investments in Quebecor, Nortel and Spansion defaulted.

As we have reported in past shareholder letters, the extreme disruptions in the financial markets resulted in the failure of auctions for most auction rate securities, including the Fund's Auction Term Preferred Stock (the "ATP") since February 2008. As a result of the auction failures, holders of the Fund's ATP have not been able to sell their ATP in monthly auctions. Because of these auction failures, the dividend rate for each series of the ATP has been, and will continue to be so long as the auctions are not successful, automatically set at each auction using a formula dictated by the terms of the ATP. This formula is based on a 30 day AA-Commercial Paper Index as described in the ATP prospectus. The Fund has entered into a swap agreement in a notional amount equal to the amount of the ATP outstanding. Under the terms of the swap agreement, which expires in November 2009, the effective cost of the ATP dividend is set at 3.775%. The Fund's Board continues to be mindful of the liquidity crisis affecting the Fund's ATP investors, bearing in mind that it must determine that any action in this area is in the best interests of the Fund as a whole.

In November 2008, the Fund was notified by NYSE Regulation, Inc. that it was not in compliance with the New York Stock Exchange's (the "Exchange") continued listing standard related to maintaining a consecutive thirty day average closing stock price of over $1.00 per share. In part to cure this deficiency prior to the May 12, 2009 deadline set by the Exchange, the Fund engaged in a 1-for-5 reverse stock split effective after the close of business on January 22, 2009, resulting in a closing price on January 23, 2009 of $5.38 per share. With a closing price of $5.75 on February 13, 2009, the Fund had met the Exchange's listing standard requirement for 15 days.

Performance Update

The Fund's net asset value (the "NAV") was $1.15 and the market price for the Fund's shares on the New York Stock Exchange closed at $0.90 on December 31, 2008, representing a market price discount of 21.7% from NAV. According to Lipper, a nationally recognized source of mutual fund data, as of December 31, 2008, the range of market price premiums to discounts on leveraged high yield funds ranged from a premium of 9.5% to a discount of 28.5%. Of the 37 funds in the Lipper High Current Yield Leveraged Funds category, 32 had market price discounts and 5 had market price premiums compared with their NAVs.

	Total Returns for the Periods Ending December 31, 2008	
	1 Year	**3 Years Cumulative**
New America High Income Fund (Stock Price and Dividends)*	(40.53%)	(38.89%)
New America High Income Fund (NAV and Dividends)	(34.74%)	(26.02)
Lipper Closed-End Fund Leveraged High Yield Average (NAV and Dividends)	(44.09%)	(37.58%)
Credit Suisse High Yield Index	(26.17%)	(15.19%)
Citigroup 10 Year Treasury Index	13.89%	28.02%

Sources: Credit Suisse, Citigroup, Lipper, The New America High Income Fund, Inc.

Past performance is no guarantee of future results. Total return assumes the reinvestment of dividends.

The Fund's ratio of total expenses to average net assets applicable to common stock was 1.45% for the year ended December 31, 2008. The Fund's ratio of total expense to average net assets applicable to common and preferred stock was .92% for the year ended December 31, 2008. The Fund's total returns based upon NAV and dividends in the above table reflect returns after accounting for Fund expenses.

* Because the Fund's shares may trade at either a discount or premium to the Fund's net asset value per share, returns based upon the stock price and dividends will tend to differ from those derived from the underlying change in net asset value and dividends.

High Yield Market Update

The high-yield market endured the worst quarter and year in its history as 2008 came to a close, with losses in the asset class approaching 20% for the final three months and 26.17% for the full year, as measured by the Credit Suisse High Yield Index. The combination of a rapidly deteriorating economy and massive selling pressure from hedge funds was devastating to the high-yield market. Not surprisingly, bankruptcy filings of high-yield companies increased in frequency. Technology, broadcasting, and autos were among the worst performing industry sectors. High-yield market investors agonized over the efforts of the three major U.S. automakers to secure a bailout from Congress as the fundamentals in the auto industry fell apart amid a drop-off in consumer spending. Even better-quality, defensive bonds including sectors like energy and utilities, which had remained resilient saw their values decline sharply.

After buyers went into hibernation in October and November, market psychology shifted 180 degrees in late December, leading to a powerful rally in the last two weeks of the year. The positive tone in the high-yield market has continued into early 2009, and we are encouraged to see renewed interest in below-investment grade bonds from both individual and institutional investors.

Strategy Review

The high-yield meltdown late in the year dictated conservative positioning in the portfolio to minimize losses. While energy has traditionally been among the Fund's largest sector weightings, one key priority was reducing the portfolio's exposure to this industry as oil prices went into a freefall in the second half of 2008. Now, many bonds related to oil and gas companies are trading at deep discounts and appear to us to once again offer compelling valuations. Utilities witnessed similar price action this year. We added to the Fund's positions after the sector was pummeled in October and November and were heartened to see it stage a vigorous recovery in December.

The credit crisis has also wreaked havoc on higher quality corporate bonds. We saw this as an opportunity to add several investment grade rated securities to the Fund's holdings during the fourth quarter. Deals we bought on behalf of the Fund included tobacco companies Altria and British American Tobacco, as well as telecom provider Verizon and issues from Morgan Stanley and Goldman Sachs. As interest rates have fallen and the first fragile evidence of some improvement in the credit markets has emerged, these bonds have enjoyed significant capital gains. For example, Verizon bonds traded as much as 17 points higher than the fund's average cost.

We also continued to invest the Fund's assets in a number of traditional high yield credits, in some cases rotating out of higher-quality holdings and replacing these positions with B and BB- rated bonds we considered to be attractively priced. Timely purchases in the fourth quarter included rental car agency Hertz, satellite provider Telesat, and telecommunication services provider GC Impsat. These issues and others were purchased at prices well below par, representing high double digit yields, and they have delivered nice capital appreciation to the portfolio since their purchase. The Fund also bought deeply distressed securities in GM and Ford in the mid-20s, recognizing that the bonds will probably never be worth face value, but will likely be exchanged in a debt-for-debt proposal at higher valuations and generate high income in the meantime.

The new-issue market remained virtually closed in the fourth quarter, but one attractive deal came to market in December. El Paso Corporation, an energy producer considered a relative blue-chip in the high-yield universe, priced a five-year bond with a 12% coupon at a 10-point discount to face value. The Fund has enjoyed an unrealized gain in the position as well as a very attractive income stream. We expect to see more transactions like El Paso in the first quarter of 2009 as higher-quality companies come back to market to refinance short-term debt. Our trading desk continues to work with our Wall Street contacts to help structure and price these deals.

Outlook

Virtually the entire high yield asset class trades at distressed levels as measured by average dollar prices or the yield advantage offered versus comparable Treasuries a factor implying many, many companies are expected to default in the coming year. While we anticipate that the default rate for high yield bonds will trend higher in 2009, and may well climb into the double digits, investors should consider that many of the bonds associated with companies on the verge of restructuring have been discounted in the market, in some cases to or below what could conservatively be considered liquidation values. At the same time, the securities of many high-quality companies are simply too cheap to pass up. It will take some courage to be invested in high-yield bonds in 2009, but bearing in mind the uncertain condition of the financial markets, the payoff could be significant over the intermediate term, with respect to both high current income and capital appreciation.

These are indeed difficult times in the world economy and across nearly all assets investors consider, but as always, our focus remains are preserving capital and generating income on behalf of The New America High Income Fund shareholders.

Thank you for your continued interest in the Fund.

Sincerely,

Robert F. Birch
President
The New America High Income Fund, Inc.

Mark Vaselkiv
Vice President
T. Rowe Price Associates, Inc.

Ellen E. Terry
Vice President
The New America High Income Fund, Inc.

Paul Karpers
Vice President
T. Rowe Price Associates, Inc.

The views expressed in this update are as of the date of this letter. These views and any portfolio holdings discussed in the update are subject to change at any time based on market or other conditions. The Fund and T. Rowe Price Associates, Inc. disclaim any duty to update these views, which may not be relied upon as investment advice. In addition, references to specific companies' securities should not be regarded as investment recommendations or indicative of the Fund's portfolio as a whole..

The New America High Income Fund, Inc.

Industry Summary December 31, 2008	**As a Percent of Total Investments**
Telecommunications	12.75%
Oil and Gas	9.19%
Healthcare, Education and Childcare	9.11%
Utilities	8.68%
Mining, Steel, Iron and Non-Precious Metals	6.43%
Broadcasting and Entertainment	5.49%
Electronics	4.90%
Containers, Packaging and Glass	4.04%
Hotels, Motels, Inns and Gaming	3.89%
Retail Stores	3.84%
Building and Real Estate	3.83%
Finance	3.33%
Ecological	2.73%
Automobile	2.40%
Aerospace and Defense	2.35%
Personal, Food and Miscellaneous Services	2.13%
Beverage, Food and Tobacco	1.94%
Printing and Publishing	1.71%
Diversified/Conglomerate Service	1.61%
Chemicals, Plastics and Rubber	1.52%
Insurance	0.92%
Cargo Transport	0.90%
Diversified/Conglomerate Manufacturing	0.90%
Personal Non-Durable Consumer Products	0.79%
Banking	0.71%
Machinery	0.67%
Leisure, Amusement and Entertainment	0.22%
Textiles and Leather	0.19%
Personal Transportation	0.16%
Furnishings, Housewares, Durable Consumer Products	0.01%
Short-Term Investments	2.66%
Total Investments	100.00%

Moody's Investors Service Ratings December 31, 2008 (Unaudited)	**As a Percent of Total Investments**
Short Term Prime-1	2.66%
A2	1.03%
A3	0.92%
Total A	1.95%
Baa1	0.52%
Baa2	1.83%
Baa3	3.53%
Total Baa	5.88%
Ba1	2.79%
Ba2	10.64%
Ba3	13.48%

Total Ba	26.91%
B1	11.99%
B2	15.19%
B3	16.75%
Total B	43.93%
Caa1	12.76%
Caa2	0.90%
Caa3	0.45%
Total Caa	14.11%
Ca	0.31%
C	0.17%
Unrated	2.81%
Equity	1.27%
Total Investments	100.00%

The New America High Income Fund, Inc.

Schedule of Investments December 31, 2008 (Dollar Amounts in Thousands)

Principal Amount/Units			Moody's Rating (Unaudited)	Value (Note 1)
CORPORATE DEBT SECURITIES 153.53% (d)				
Aerospace and Defense 3.85%				
$	650	BE Aerospace Inc., Senior Notes, 8.50%, 07/01/18	Ba3	$ 582
	1,625	GenCorp Inc., Senior Subordinated Notes, 9.50%, 08/15/13	B1	1,284
	925	Hawker Beechcraft Acquisition Company LLC, Senior Notes, 8.50%, 04/01/15	B3	379
	350	Hawker Beechcraft Acquisition Company LLC, Senior Notes, 8.875%, 04/01/15	B3	119
	150	Hawker Beechcraft Acquisition Company LLC, Senior Subordinated Notes, 9.75%, 04/01/17	Caa1	41
	1,150	L 3 Communications Corporation, Senior Subordinated Notes, 7.625%, 06/15/12	Ba3	1,133
	625	Moog, Inc., Senior Notes, 7.25%, 06/15/18 (g)	Ba3	500
	825	TransDigm Inc., Senior Subordinated Notes, 7.75%, 07/15/14	B3	676
	575	Vought Aircraft Industries, Senior Notes, 8%, 07/15/11	Caa1	385
				5,099
Automobile 3.91%				
	1,825	Allison Transmission, Inc., Senior Notes, 11.25%, 11/01/15 (g)	Caa1	712
	850	Cooper Standard Automotive Inc., Senior Subordinated Notes, 8.375%, 12/15/14	Caa3	170
	800	Daimler North America Corporation,	A3	640

		Senior Notes, 6.50%, 11/15/13		
	775	Ford Motor Company,Senior Bonds, 7.45%, 07/16/31	Ca	205

Principal Amount/Units			Moody's Rating (Unaudited)	Value (Note 1)
$	550	General Motors Corporation, Senior Notes, 7.20% 01/15/11	C	$ 110
	1,450	General Motors Corporation, Senior Notes, 8.375%, 07/15/33	C	261
	1,035	Goodyear Tire & Rubber Company, Senior Notes, 8.625%, 12/01/11	B1	869
	525	KAR Holdings, Inc., Senior Notes, 7.193%, 05/01/14	B3	223
	1,150	KAR Holdings, Inc., Senior Subordinated Notes, 10%, 05/01/15	Caa1	380
	950	SPX Corporation, Senior Notes, 7.625%, 12/15/14 (g)	Ba2	831
	475	Tenneco Automotive, Inc., Senior Subordinated Notes, 8.625%, 11/15/14	B3	180
	375	TRW Automotive Inc., Senior Notes, 7%, 03/15/14 (g)	B2	199
	575	TRW Automotive Inc., Senior Notes, 7.25%, 03/15/17 (g)	B2	293
	275	United Components, Inc., Senior Subordinated Notes, 9.375%, 06/15/13	Caa1	116
				5,189
Beverage, Food and Tobacco 2.75%				
	625	Altria Group, Inc., Senior Notes, 9.70%, 11/10/18	Baa1	677
	575	B.A.T. International Finance plc, Senior Notes, 9.50%, 11/15/18 (g)	Baa2	636
	1,050	Del Monte Corporation, Senior Subordinated Notes, 8.625%, 12/15/12	B2	1,018
	1,475	Reynolds American, Inc., Senior Notes, 7.25%, 06/01/13	Baa3	1,320

				3,651
Broadcasting and Entertainment 8.89%				
	875	Allbritton Communications Company, Senior Subordinated Notes, 7.75%, 12/15/12	B2	433

The accompanying notes are an integral part of these financial statements.

The New America High Income Fund, Inc.

Schedule of Investments December 31, 2008 Continued (Dollar Amounts in Thousands)

Principal Amount/Units			Moody's Rating (Unaudited)	Value (Note 1)
CORPORATE DEBT SECURITIES continued				
$	350	Barrington Broadcasting Group LLC, Senior Subordinated Notes, 10.50%, 08/15/14	Caa3	$ 137
	250	Bonten Media Group, Inc., Senior Subordinated Notes, 9%, 06/01/15 (g)	Caa2	82
	425	Canadian Satellite Radio, Senior Notes, 12.75%, 02/15/14	(e)	100
	100	Clear Channel Communications, Senior Notes, 4.50%, 01/15/10	Caa1	60
	1,175	CSC Holdings, Inc., Senior Notes, 7.625%, 07/15/18	B1	940
	625	CSC Holdings, Inc., Senior Notes, 7.625%, 04/01/11	B1	