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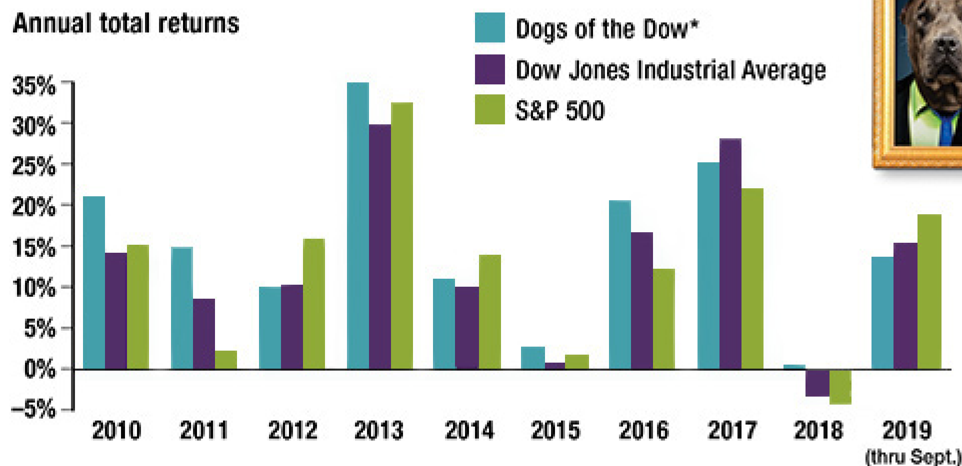
Running with the Dogs

The Dogs of the Dow is a simple investing strategy that combines an emphasis on dividends and value. It involves investing in the 10 stocks from the Dow Jones Industrial Average (the Dow) that have the highest dividend yields on the last trading day of a given year.

Typically, the purchases are made on the first trading day of the new year, with working capital spread evenly among the 10 stocks. The stocks are then held until the end of the year, when the process is repeated.

A Decade of Dogs

Over the 10-year period ending in September 2019, the Dogs of the Dow strategy produced an annualized total return of 15.47%, outpacing the Dow (13.56%) and the S&P 500 (13.24%). However, annual returns varied widely.



*The Dogs of the Dow are represented by the Dow Jones High Yield Select 10 Index.

The Dow Jones Industrial Average and the S&P 500 are unmanaged groups of securities that are considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance does not guarantee future results. Actual results will vary.

Source: S&P Dow Jones Indices, 2019

Underperformance or Value?

In investing parlance, a "dog" is a chronically underperforming stock that drags down overall portfolio performance. However, there are seldom any true "dogs" in the Dow, which is composed of 30 of the largest, most stable U.S. companies.

In fact, the Dogs strategy is based in part on the assumption that companies listed in the Dow offer consistent dividends, so when a company's dividend yield increases beyond its typical range, the share price is generally lower

than usual and might be undervalued. (Dividends are typically expressed as a fixed amount per share, so a lower share price increases the dividend yield.) By this logic, the company's stock may be poised to rise in value, thus offering share price appreciation along with a higher dividend. Some companies tend to offer higher-than-average dividends that regularly place them in the annual Dogs list even at higher share-price valuations.

New Dogs for New Years

The Dogs of the Dow is a long-term strategy, with capital reapportioned as appropriate at the beginning of each year. This requires selling stocks that have dropped off the Dogs list, buying stocks that have been added, and rebalancing the Dogs portfolio to maintain 10% investment proportions in each of the 10 highest-yielding stocks.

One convenient way to implement the strategy is through a unit investment trust (UIT) that purchases a portfolio composed of the Dogs of the Dow and sells shares (units) to individual investors. UITs have a specified termination date. Typically, a Dogs UIT will terminate at the end of the year, and the sponsor will offer the opportunity to roll over funds to a new UIT holding the new Dogs of the Dow in equal proportions. All UIT dividend and interest payments are distributed as they are received and generally can be reinvested. Distributions are not guaranteed.

Investing in dividends is a long-term commitment. You should be prepared for periods when dividend payers drag down, not boost, an equity portfolio. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.

The return and principal value of stocks and UITs fluctuate with changes in market conditions. Stock shares and UIT units, when sold, may be worth more or less than their original cost. UITs might carry additional risks, including the potential for a downturn in the financial condition of the issuers of the underlying securities. UITs employ a long-term strategy, so investors should consider their ability to pursue investing in successive UITs. There may be tax consequences associated with the termination of the UIT and rolling over an investment into a successive UIT.

UITs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

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