Homework week 14: Dogs of the Dow

I hate shopping but I love the stock market. When you think about how the market goes up and down – it is kind of like shopping. You pick things you like and are of good quality and then wait till they are on sale to buy them. That is the basic concept behind dogs of the Dow. High quality, on sale.

For decades I have used an investing strategy called Dogs of the Dow which I learned from Michael Higgins in his book, "Beating the Dow". The strategy's simplicity is what I loved the most about it.

It is so easy – you invest in the 10 of the 30 companies in the with the highest dividend yield. So what do I mean by that? The yield is the amount of the annual dividends paid by the sock divided by the price on that day. You can find "dogs" on **http://www.dogsofthedow.com/2017-dogs-of-the-dow.htm.**

Here is an example: IBM will pay $6.00 per share in dividends this year. It is currently trading at $149 per share. If you divide $6 by $149 you will get 4.02%. Meaning your return on your investment of $149 will be 4% per year just on dividends paid. The website dividends.com lists the price, dividends and yield of the Dow each day so you don't have to even do any math.

Just take the chart and pick the top 10 yielding stock and buy an even dollar amount of them. On the same day each year you do the calculation and make changes as necessary. I do this the week of my birthday each year.

Now when I first started I did not have enough money to buy shares in the top 10 – I started with 3. I had $1000 and split it among the three companies. I bought 35 shares of Walt Disney which was trading at $9.28, 55 shares of Caterpillar which was trading at $6.00, and 40 shares of Coca Cola which was trading at $8.38 – investing about $333 in each stock.Over time, as I saved more money to invest I moved to 10 from my original 3.

Is it Really that Simple? - Yes, this strategy really is as simple as it sounds. On your same day every year, you reassess the 30 components of the DJIA, determine which ones have the highest dividend yield, and make your portfolio as equally weighted in each of these 10 stocks as possible. Hold onto these 10 stocks for one calendar year and repeat the process. This is a long-term strategy, requiring a long period to see results.

Does it work? Yes - The performance in the last 20 years returned 20.3% annually, whereas the Dows averaged 15.8%.

Why does it work? The premise of this investment style is that the Dow Dogs, which are temporarily out-of-favor stocks, are still good companies because they are still included in the DJIA; therefore, holding on to them is a smart idea, in theory. Once these companies rebound and the market has revalued them properly (or so you hope), you can sell them and replenish your portfolio with other good companies that are temporarily out of favor. Companies in the Dow have historically been very stable companies that can weather any market decline with their solid balance sheets and strong fundamentals. Furthermore, because there is a committee perpetually tinkering with the DJIA's components, you can rest assured that the DJIA is made up of good, solid companies.

As a disclaimer – I am not an investment advisor and am not providing investment advice. I am merely giving you the benefit of my personal experience in investing.

Until next week

Live Rich!

Cindy

CINDY BROWN