

## From the Editor, Issue 17. 20/04/10

# Dogs

**With each of our quarterly Dogs portfolios now having been rebalanced, this month we take a closer look at how these portfolios have performed in comparison to the broader index.**

After April's rebalance, the series is finally complete. With all having now been re-balanced, it seemed appropriate to do a write up on how the strategy has been working out, its performance, and how we expect the next few years to fare as the market begins to make its move back to the norm. But let's begin with a little background on the strategy.

The Dogs blue chip strategy is based on the 'Dogs of the Dow', which is almost a household name in the US. The original strategy bought the top 10 stocks by dividend yield in the Industrial Average Index once per annum. The name 'Dogs' refers to buying bombed out or dog stocks in the Dow Jones (popular stocks tend to sell at much higher multiples and lower dividend yields). Each 12 months, the stocks in the portfolio were bought and sold to match the top 10 dividend yielding stocks in the Dow Jones. The strategy is remarkably simple, yet it has produced market beating returns over many decades and many countries where it has been tested. Members had requested a low maintenance, blue chip strategy and we believe this strategy fits the bill perfectly. One of our key criteria was the reliability of the strategy based on varying market conditions and we found the dogs to survive all sorts of nightmares including the 1970's inflation and oil embargos, and even the Great Depression.

The Dogs strategy is a long term, low maintenance trading system that has outperformed the All Ords Accumulation Index by investing in high-dividend paying blue-chips. It was introduced by Rivkin in mid-2008 as an alternative



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for those members who were interested in investing their money somewhere that would return them a handsome profit, but not at the cost of a great deal of their time. And to date, we have a huge number of happy members who have taken part. But who wouldn't be when you consider the results they've produced!

The portfolio works on 12-month cycles, but instead of doing only one a year, to allow all our members the opportunity to take part, we have instead released a portfolio every quarter, listing the top ten at that particular time. They are: July, October, January and April. This allows members to enter at varying times of the year.

The Dogs strategy is a model blue chip portfolio only offered to Rivkin clients. It has become

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## Dogs. cont...

somewhat of a staple portfolio for many members looking for a long term, low risk, and low maintenance way of building their wealth over an extended period of time. By doing all the research here in our offices, our clients are told the stocks they need to buy on the day, have their performance recorded and are given all the details on the re-shuffle when the time comes. They also have the added benefit of having our team track the stocks throughout the year to keep them up to date with any major or minor dealings that may require their immediate attention.

So let's get back to the results. We've now rebalanced all the portfolios once, the last of which occurred only last week. And what a result they produced; up close to 45% since their inception a year ago! But what more would you expect, with ten out of the ten stocks finishing in the black, and some, like Macquarie Group Ltd (MQG), up as much as 92%, and all but Telstra Corp Ltd (TLS) up at least 25%. These figures were very similar to the January portfolio, but with many of the same stocks in the portfolio, it's no surprise that portfolio also managed a 45% gain, compared to the market's 30%.

Of course, these results need to be taken with a grain of salt when you consider the year of recovery we have had. So this isn't to say that all years are going to be as lucrative; we can't allow ourselves to be blinded by extraordinary results, but then that is not our aim. The aim of the portfolio is to outperform the accumulation index, and we're proud to say that it has achieved that goal so far. Looking back to the July dogs that ran right through the downturn, we can see this outperformance in another form. Over that period, the market shed 22.83%, while the dogs shed only 15.25%. But then, with stocks like Goodman Group (GMG) and Suncorp (SUN) shedding 88% and 43% respectively, it too comes as no surprise as we get a first hand look at what these bombed out blue chips can sometimes be capable of.

We need to view this in a positive light, and this is possible because it is a perfect example of the situations spoken about in our research. Examples like the Great Depression,



the crash of 1987 and so on are uncommon events, but as we now know all too well, they do happen, and it's the strategies that avoid the downside that can be the most important.

So taking into account the year 2008 was, and on the opposite end of the spectrum, what sort of year 2009 was, what can we expect when we don't have such a fluctuating market? The Dogs strategy was tested as far back as 1986 in Australia by our research, but the theory, as we stated earlier, has been around for a lot longer than that and the results have spoken for themselves. Just off our research, not including the huge results of the past year, off a

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\$55,000 investment, the Dogs would have returned a whopping \$1,084,205.00 over the twenty two year period from 1986, in comparison to the All Ords Accumulation Index, which would have produced \$788,115.00 in the same period.

The funny thing about our research is that it actually showed a loss over the first five years compared to the market, whereas since the inception of the strategy here at the Rivkin Report, we are ahead. The downturn could have been the boost the Dogs needed to get a head start over the other years. As the global economy continues to recover, and really starts to dig its heels in, I'm sure these bombed out blue chips will feel the force of that recovery and see some fantastic results.

Good investing,

**Patrick Stewart**  
**Equity Analyst, The Rivkin Report**