NIGHTLY BUSINESS REPORT

ON AIR

Transcripts

The Good Riddance 2008 Rally

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SUSIE GHARIB: Wall Street celebrated the end of a horrible year with a rally. The Dow jumped 108 points with the blue chip average closing at 8,776 today. For the year the Dow plunged 33 percent, its worst performance since the Great Depression. The NASDAQ rose 26 points today, but posted a 40 percent drop for 2008. As investors plot where to put their money in the New Year, many are wondering if it pays to follow the investment strategy known as the "dogs of the Dow." Erika Miller explains.

ERIKA MILLER, NIGHTLY BUSINESS REPORT CORRESPONDENT: In addition to the bulls and bears on Wall Street, you can also find some dogs. No, not those dogs. We're talking about the "dogs of the Dow," the 10 stocks in the Dow Jones Industrial Average with the highest dividend yield. This well-known investment strategy calls for buying the so-called dogs in equal amounts at the end of the year and rebalancing annually. The Dow dogs got mauled this year with total returns plunging 38 percent. That compares to a drop of 32 percent for the overall Dow index. Both figures include reinvested dividends. However, money manager Michael O'Higgins, who popularized the Dow dogs strategy, believes now may be a good time to get in.

MICHAEL O'HIGGINS, PRESIDENT, O'HIGGINS ASSET MANAGEMENT: Usually one of the best times to buy them is in a year after they've done particularly poorly. For example, they did poorly in 1990. And then in 1991 they came roaring back with like a 65 percent gain.

MILLER: He points out the strategy has had the greatest success over long periods of time. For example, since 1972, the Dow dogs have posted a total return of 12.5 percent a year. That's 3 percentage points more than the Dow 30. But others do not believe the "dogs of the Dow" strategy will be "best in show" in 2009. S&P's Howard Silverblatt says it is a mistake to pick stocks solely on dividend yield without regard to business model.

HOWARD SILVERBLATT, SENIOR INDEX ANALYST, STANDARD & POOR'S: Going by higher yields is no longer a safe situation and dividend players want to be safe. So you can't go for the high-yielders. They are high-yielding because the price is very depressed, they may not have the cash coverage, so you really have got to start looking at the -- at issue by issue and not going into a black box.

MILLER: "Dogs of the Dow" advocates stand by their method, arguing dividend yield is the best way to identify undervalued blue chip companies.

O'HIGGINS: We found that it's the most consistent measure because again dividends are cash. You know, when you are talking about earnings, earnings are what the accountants say they are. Dividends are cash.

MILLER: For those who want to buy into the Dow dogs strategy, here is the kennel: Bank of America (BAC), Pfizer (PFE), Alcoa (AA), DuPont (DD), GE (GE), AT&T (T), Verizon (VZ), Merck (MRK), JPMorgan (JPM), and Kraft (KFT). Averaged together, the 2009 Dow dogs are now yielding close to 7 percent. So it may provide some comfort to investors to know that even if the stocks perform poorly, the dividends should provide some cushioning. Erika miller, NIGHTLY BUSINESS REPORT, New York.