
Midas: High-yield portfolio triumphs

edited by Joanne Hart, Financial Mail

The Dogs have done it again. Our portfolio of the ten highest-yielding shares in the FTSE 100 has triumphed over the past three months and has easily outperformed the index as a whole.

Since last October, the value of our Dogs of the Footsie has shot up by more than 6% from £19,452 to £20,642. Over the same period the Footsie has risen by a paltry one% and the index closed on Friday at 6,228.

But the Dogs' performance does not only apply to the past quarter. This time last January the Footsie was just over 5,700, so it has risen nine percent over the year. But the Dogs have shot up by 23%, a truly rewarding performance.

The Dogs of the Footsie approach is loosely based on a theory devised by American investment guru Michael O'Higgins. We buy shares in the ten Footsie companies that have the highest yield - that is the share price divided by the annual dividend.

Every three months we check to see how the list of top ten yielders has changed. We sell the shares that have dropped out and reinvest that money equally in companies that have joined the list of high-yield shares.

Our portfolio is drawn up using dividend forecasts rather than past dividends. And in assessing our investments, we look only at share prices. We do not add any dividend income received.

The portfolio began in 2001 with £10,000, so it has now more than doubled its money. The Footsie has risen 13.7% over the same period, so it seems as if the Dogs approach is well worth pursuing.

Last October, the companies in the portfolio were Alliance & Leicester, Barclays, Bradford & Bingley, BT, HSBC Lloyds TSB, Rentokil Initial, Royal Bank of Scotland United Utilities and Vodafone.

Rentokil Initial has now been dropped from the Footsie, so it does not qualify any more (though it is still yielding almost 4.6%). Barclays and Royal Bank of Scotland shares have risen significantly over the past few months, so their yields have fallen and they are Dogs no longer.

The trio will be replaced by DSG International, which owns Dixons, Currys and PC World; Kingfisher, which owns B&Q; and water company Severn Trent.

All three companies have moved in and out of the Dogs portfolio over the past few years, but it is easy to see why they have returned to the fold.

The retail environment has been rocky in recent months, particularly in the DIY sector. In fact, Kingfisher, which is yielding 4.6%, is so out of favour with the City that some analysts believe it may cut the dividend this year. If it does, this would clearly affect the yield, but we are including it in the portfolio based on the latest expected annual payout of about 10.7p.

The electrical goods sector has not been easy either, which explains why DSG, with a yield of almost 5.5%, is a Dog once again.

Some products, such as slimline televisions and laptop computers, have flown off the shelves, but the

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company has found larger items, such as fridges and washing machines, extremely difficult to shift.

DSG has also had tough problems overseas, as it revealed in a recent announcement on current and future trading. Chief executive John Clare, below, unveiled some very poor UK sales figures, admitted that Italy and France had been disappointing in the lead up to Christmas and said he was uncertain about the future.

As for Severn Trent, the water group is back in our portfolio because its shares have fallen back slightly after surging in value until the back end of 2006. It now yields 4.2%.

The total value of the shares that are dropping out of the portfolio is just over £7,508 and we are dividing this equally to invest in the three joiners.

But if investors are just interested in high-yield FTSE stocks, then some doubts about Kingfisher's dividend prospects could lead them to choose the next highestyielder, brewer Scottish & Newcastle. Its yield and Vodafone's are within a whisker of one another.

Of course, no investment philosophy is foolproof and there is considerable uncertainty about the stock market at the moment. But the Dogs approach has served us well over the past six years, so let us hope it continues. We will watch the next quarter with interest.
