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Central Madrid: Spain’s stock market is one of the bourses Michael O’Higgins has hand-picked for its relative undervaluation compared to global peers.
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Dogs of the Dow inventor's latest bet: the dogs of the world

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Most people are terrible investors. In the 20 years between 1990 and 2010, the average U.S. equity fund holder made just 3.8 per cent per year, less than half the S&P 500’s return, according to a study by Dalbar, a Boston-based consulting group.

Sure, investment fees are partly to blame for this sad level of performance. But it’s our own behaviour that blows far larger holes in the bottom of our financial boats. We rush into stocks, funds or strategies that have produced strong recent returns – and which often start to sink just as we’re jumping aboard. By buying high and selling low, we devastate our returns.

Miami-based money manager Michael O’Higgins has a solution – a new strategy that, he hopes, will prevent people from sabotaging their portfolios.

In two previous books Mr. O'Higgins unveiled other investment methods that have done well. Back in 1991, his first book, *Beating the Dow*, outlined the Dogs of the Dow strategy which encouraged investors to put their money into the Dow's lowest-priced, highest dividend-yielding stocks. Since the book's publication to the end of 2012, the Dogs strategy gained 11.7 per cent per year, compared to 9.1 per cent for the S&P 500.

His follow-up book, *Beating the Dow with Bonds* in 2000, also earned market-beating returns from its date of publication. But Mr. O'Higgins says neither strategy has earned the popular following you might expect.

"Few investors earned those returns because most people are fickle," he explained. "If a strategy fails to work for a few years, they usually abandon it for something hot."

His latest methodology, which he coins MOAR (for Michael O'Higgins Absolute Return) was created with the intention of keeping investors on track by reducing volatility. It's an indexing strategy that would have earned just shy of 14 per cent a year since the end of 1972, with only three losing years.

His new portfolio is a combination of exchange-traded funds (ETFs) divvied up this way: 25 per cent in gold or platinum, 25 per cent in long-term government bonds, 25 per cent in medium-term bonds and 25 per cent in a collection of country-specific stock indexes that are hand-picked for their relative undervaluation compared to their global peers.

That's right: Mr. O'Higgins runs toward poorly performing stock markets, while most people run away from them.

Once a year the portfolio gets rebalanced back to its 25-per-cent allocation for each asset class – unless the equity indexes have dropped over the past year. When that happens, the strategy adds more money to underperforming stock markets, drawing equally from the other sections of the portfolio. When the equity holdings eventually record an annual profit, the investments get rebalanced back to the original allocation.

Pouring your money into the dogs of the world's stock markets isn't for the faint of heart. At the beginning of 2012, the equity portion of the MOAR portfolio included some of the world's ugliest performers – 8 per cent of the overall portfolio was French stocks, 8 per cent Polish stocks, 8 per cent Russian stocks, 8 per cent Italian stocks and 8 per cent Spanish stocks. (The equity portion of the portfolio was larger than usual because stocks had lost ground the previous year.)

In addition, the portfolio held 20 per cent of its assets in platinum, 20 per cent in long-term bonds and 20 per cent in intermediate-term bonds.

By the end of 2012, the equity portion of the portfolio had returned a profit for the year, earning 19.2 per cent. As a result of that gain, Mr. O'Higgins pared the equity allocation from 40 per cent of the portfolio's total back to 25 per cent.

Adding to the world's least popular country indexes after a bad year, and taking money from them after a good year is a classic case of being fearful when others are greedy and greedy when others are fearful. It's the opposite of what most investors would do.

Here's how the portfolio looked at the beginning of 2013 (with U.S.-listed ETF tickers noted for each holding): 5-per-cent French stocks (EWQ); 5-per-cent Austrian stocks (EWO); 5-per-cent Russian stocks (RSX); 5-per-cent Italian stocks (EWI); 5-per-cent Spanish stocks (EWP); 25-per-cent platinum (PPLT); 25-per-cent long-term bonds (VGLT) and 25-per-cent intermediate-term bonds (VGIT). (Canadians who want to emulate this strategy may want to replace the U.S. bond ETFs with Canadian versions.)

Mr. O'Higgins, who hopes to produce a book detailing MOAR in detail, is quick to point out that such a strategy won't produce great results every year. When markets rise – as they did last year – the MOAR strategy often lags behind. In 2012 it gained just 11.4 per cent, compared to 14.3 per cent for the U.S.

market.

But if you’re looking for a contrarian strategy, with a long-term record of profits and stability, it might be worth considering.