Dogs of the Dow 2019: Three Stocks to Keep an Eye On

Let's start today's report with some solid wins.

On September 24, 2018, we highlighted the following opportunities:

- Velocity Shares Daily 2x VIX Short-Term ETN (TVIX), which traded at $26.25
- iPath S&P 500 VIX Short-Term Futures (VXX), which traded at $26.85
- ProShares Ultra VIX Short-Term Futures (UVXY), which traded at $37.22

Since then, as you can see in the VIX fear gauge, volatility ran amok.

The TVIX now trades at $57.30. Take the win.
The VXX now trades at $42.33. Take the win.
The UVXY now trades at $69.44. Take the win.

Not too bad. But, we now believe volatility has gotten way out of hand. So, we're now looking at long-term opportunities as volatility may begin to cool.

The 2019 Dogs of the Dow

Stocks may be struggling in the latter part of 2018, but some real bargains are emerging.

One of the best ways to profit from the most oversold stocks – especially those that pay consistent dividends is by investing in the Dogs of the Dow.

Granted, Barron's for instance, once reported that the "Dogs of Dow Investing Strategy no Longer Works," *but that's not true*. Others have noted that research confirmed back in 2007 that the Dogs of the Dow is no longer a successful concept.

And still others argue investors are barking up the wrong tree with the theory.

But, it does work very well.

The Dogs of the Dow Theory

Simply buy the highest yielding 10 Dow Jones stocks that fell out of favor, investing an equal amount in each, liquidating by January 1 of the following year, and repeating for nearly predictable rewards.

Even better, it's easy to use, and it performs well.

The way you pick the Dogs is very simple.

When the year starts, look at the top 10 yielding dividend stocks in the Industrials. Invest equal amounts of money in all 10 stocks. Then, hold onto those stocks throughout the year. At the end of the year, we do it all over again.

History of the Dogs of the Dow

While 2007 was flat, followed by a 38.8% decline in the 2008 Dogs (for apparent subprime reasons), the Dogs have returned a gain every year since.

In fact, in 2009, they were up 16.9%. In 2010, they jumped 20.5%.

In 2011, there were up 16.3%. In 2012, they jumped 9.9%. In 2013, they returned 34.9%. In 2014, they returned 10.8%

In 2015, they did okay, returning just 2.6%.

In 2016, the Dogs returned 16% on average. So the idea that the theory is dead is laughable. In 2017, the Dogs of the Dow returned 19% for the year.

For 2018, the Dogs included:

• Verizon ran from $50 to $57.10
• IBM dropped from $149 to $119
• Pfizer Inc. ran from $35 to $44
• ExxonMobil fell from $81 to $75 thanks to oil prices dropping
• Chevron fell from $124 to $112
• Merck ran from $55 to $76
• Coca-Cola ran from $43 to $50
• Cisco Systems ran from $37 to $49
• Procter & Gamble ran from $87 to $94
• General Electric fell from $17 to $7

Six out of 10 isn’t so bad, considering how bad volatility was in 2018. Plus, you were handed dividend yields from each along the way.

There are three ways to trade Dogs yearly.

One is to buy an ETF such as the ELEMENTS Dogs of the Dow (DOD) ETF. A second way is to diversify among all 10 Dogs while collecting dividends from each. And, a third way is to buy long-dated call options on each with a plan to hold for the full year.

What's Ahead for 2019

The uptrend on the Dow Jones is still firmly in place. Since early 2016, the index exploded from 15,482 to a current 23,881. And while things may not look so hot in the latter part of 2018, we believe 2019 could prove to be healthier, especially if trade war fears cool.

We are firm believers that the Dogs of the Dow will have another solid year.

While the 2019 Dogs are not out just yet, two likely contenders are Cisco (CSCO) and JP Morgan (JPM). Those in addition to an oversold DOD ETF could do well in 2019.