Financial Analysts Journal ›
Volume 59, 2003 - Issue 1

PORTFOLIO MANAGEMENT

Dividend-Yield Strategies in the Canadian Stock Market

Sue Visscher & Greg Filbeck

Pages 99-106 | Published online: 02 Jan 2019
Cite this article https://doi.org/10.2469/faj.v59.n1.2506

Abstract

The “Dogs of the Dow” strategy has become an increasingly popular investment strategy for unit investment trusts, resulting in superior performance for U.S.-based investors. To examine its effectiveness for Canadian investors, we applied this high-dividend-yield strategy to the Toronto 35 Index for the first 10 years of the index's existence. The 10 top-performing portfolios' higher compound returns were sufficient to compensate for taxes and transaction costs. Perhaps more important, both the Sharpe ratio, which measures excess return to total risk, and the Treynor index, which measure higher risk-
adjusted ll against
the broa

The ing the 10
highest ing on an
annual b es being
used in t the
academic literature in recent years. The success of value-based strategies has also

been investigated in international markets, with the Canadian market showing mixed results. In the study reported here, we investigated whether the Dow Dogs dividend-yield strategy is effective in the Canadian stock market.

We compared the performance of the 10 highest-dividend-yield stocks in the Toronto 35 Index with the performances of both the Toronto 35 and the Toronto Stock Exchange (TSE) 300 Index for the 1987–97 period. We obtained data on the constituent companies, as well as returns for both indexes, from the TSE Review. We collected dividend yields on all of the Toronto 35 companies for the last trading day of July 1987 through 1997 from Research Insight. The 10 companies with the highest dividend yields composed the equally weighted Top 10 portfolio each year. The monthly returns for each stock include the price change and dividends, divided by the beginning price. We calculated the Top 10 portfolio return by investing C$10,000 in each stock on 1 August. Each C$10,000 investment was increased by each individual stock's August return. We added the end-of-August stock values to determine the portfolio value. We used the percentage change in portfolio value during the month for the monthly portfolio return. We multiplied the Canadian dollar value of each stock investment at the end of August by each stock's September return, summed the 10 stock values, and calculated the September portfolio ending value and return. We repeated this process for each of the 12 months. Then, we repeated the process for the following year by investing C$10,000 in each of 10 potentially new stocks on 1 August.

The Top 10 portfolios' compound returns were between 1.2 percentage points and 20.4 percentage points greater than those of the index in eight years and were lower than the index by relatively small amounts (2.8 pps and 3.6 pps) in the other two years. The Top 10 portfolios also beat the Toronto 35 in the six consecutive 5-year periods and over the entire 10-year period. The strategy was successful even after taxes and transaction costs were taken into account.

We also ... cess return
per unit ... n the
investor ... ecific risk.
Whe ... d return
results. ... ear periods
and all t ... er, well-
diversifi ... Treynor
index is the appropriate measure of risk. Calculating this measure, we found, again,

that the Top 10 portfolios outperformed the Toronto 35 in the same eight single years and all multiyear periods.

In addition, the strategy performed well against the broader, but similar, TSE 300 Index.

We would like to thank Ed Nelling and Dianna Preece for their helpful comments.

Related research