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PORTFOLIO MANAGEMENT

Dividend-Yield Strategies in the Canadian Stock Market

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Pages 99-106 | Published online: 02 Jan 2019

Cite this article <https://doi.org/10.2469/faj.v59.n1.2506>

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Abstract

The “Dogs of the Dow” strategy has become an increasingly popular investment

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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.

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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.

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