An Empirical Analysis of the S&P 500 Sector Dogs Trading Strategy

Brett Cotten
Columbus State University

Autumn Wilson
Columbus State University

Alan Tidwell
University of Alabama

Abstract

The Dogs of the Dow trading strategy has been popular among investors since it was first publicized in the late 1980s. A number of academic studies have examined this strategy with mixed results. For example, McQueen, Shields, and Thorley (1997) find that while the strategy beat the Dow with statistical significance the results were not economically significant. On the other hand, in a more recent study, Filbeck, Holzhauer, and Zhao (2017) examine a variation of the Dogs of the Dow using Fortune's Most Admired Companies and find that the strategy beat the S&P 500 on a risk-adjusted basis with both statistical and economic significance. We add to this literature by testing another variation that applies the traditional Dogs of the Dow strategy to the S&P 500, selecting the five highest dividend yield stocks from each GICS sector. We compare returns of this Sector Dogs strategy to those of the traditional Dogs of the Dow and to those of the S&P 500. We find that this strategy produces higher returns than both the S&P 500 and the traditional dogs of the Dow. With respect to the S&P 500, the results are both statistically and economically significant. In addition, the strategy produces a positive alpha that is also significant.