



KINTRA



# Dogs of the Dow 2025 Review

## *Another Strong Year Sets Stage for 2026*

The "Dogs of the Dow" is an investment strategy that focuses on selecting the 10 highest-yielding dividend stocks in the Dow Jones Industrial Average (DJIA). The idea behind the strategy is simple: by buying the stocks that offer the highest dividend yields in the DJIA, investors can potentially benefit from both dividend income and capital appreciation. The strategy is based on the belief that companies with higher-than-average dividend yields are often undervalued, offering the potential for price growth as the market eventually recognizes their value.

2025 was a constructive year for the Dogs of the Dow strategy, particularly for dividend-focused investors. The 10 highest-yielding stocks in the Dow Jones Industrial Average delivered their strongest equal-weighted performance since 2019, with an average return of 17.8% through December 26, compared with the broader Dow 30's 14.5% gain over the same period. Past performance does not guarantee future results.

With long-term Treasury yields retreating from a January peak of 4.8% to about 4.1% by year-end, dividend-paying stocks with above-average yields remained in focus for many income-oriented investors. Looking ahead to 2026, market expectations for potential additional Federal Reserve rate cuts could continue to influence relative performance between dividend strategies and other parts of the equity market.

### **The Dogs Strategy: Simple and Rules-Based**

The Dogs of the Dow strategy selects the 10 highest-yielding dividend stocks in the Dow Jones Industrial Average at the beginning of each year. The rules-based approach emphasizes large, established companies whose dividend yields are elevated relative to other Dow constituents.

Popularized by Michael O'Higgins in his 1991 book *Beating the Dow*, the

approach is often associated with value-investing concepts. The underlying premise is that some higher-yielding blue-chip companies may reflect temporary setbacks in investor sentiment, creating the potential for both dividend income and capital appreciation if fundamentals stabilize or improve over time. There is no assurance that this outcome will occur, and the strategy can underperform broader market benchmarks for extended periods.

### **2025 Performance: The Dogs Delivered Solid Results**

The 2025 Dogs portfolio generated solid results, with several holdings contributing meaningfully to returns. Among the Dogs, a number of healthcare and technology companies posted notable gains in the 28% to 44% range for the year, reflecting company-specific developments and broader sector trends. Individual stock performance can be volatile and may not be representative of future periods.

Healthcare-oriented names, including large pharmaceutical and biotechnology companies, benefited from continued demand for medical products and services. At the same time, select technology and communication-equipment providers participated in ongoing enterprise spending on cloud, networking, and AI-related projects. Other holdings from telecommunications, energy, and industrial sectors contributed to the portfolio's overall income profile, highlighting the strategy's diversified sector exposure within the Dow universe.

### **The 2026 Dogs: New Entrants and Carryovers**

As the calendar turns to 2026, the composition of the Dogs portfolio changes based on updated dividend yields. Several strong performers from 2025—including IBM, Cisco, and McDonald's—are expected to exit the Dogs list as their price appreciation has reduced their yields below the top-10 threshold. This turnover reflects the strategy's systematic rebalancing, which trims positions whose yields have fallen and reallocates to higher-yielding Dow components.

Taking their place are companies whose share prices lagged in 2025 but that now feature higher dividend yields and potential recovery narratives:

- Nike experienced headwinds tied to competitive dynamics and shifting consumer demand but continues to possess a well-recognized global brand and broad distribution.
- UnitedHealth faced regulatory and reimbursement uncertainties in 2025, yet continues to operate as a leading health-insurance and health-services provider benefiting from long-term demographic trends.
- Home Depot encountered softness linked to housing-related spending and interest-rate sensitivity, though any easing in borrowing costs could support home-improvement activity over time.

Among the seven carryover holdings, Verizon and Chevron currently stand out with relatively higher indicated dividend yields, recently around 6.7% and 4.6%, respectively. Valuations—such as Verizon trading at roughly 8.5 times 2026 earnings estimates—suggest that some investors may view these shares as attractively priced, though earnings estimates are subject to change and stock prices can fluctuate significantly.

### **Why the Dogs Could Be Relevant in 2026**

Several themes may influence how the Dogs of the Dow strategy fares in 2026:

#### **Rate Environment Considerations**

With the 10-year Treasury yield having moved lower during 2025 and markets anticipating the possibility of additional Federal Reserve rate cuts in 2026, the relative appeal of equity income strategies could remain elevated for some investors. However, changes in interest rates can affect both dividend-paying stocks and bond markets in unpredictable ways.

## **Value Rotation Potential**

New additions such as Nike, UnitedHealth, and Home Depot represent established franchises that recently traded at valuations reflecting 2025 headwinds. If those challenges prove more cyclical than structural, these stocks could participate in a broader value-oriented recovery. There is no guarantee that this will occur, and company-specific risks remain.

## **Income Generation Characteristics**

The Dogs portfolio emphasizes companies that pay regular dividends, which can help support a portfolio's cash-flow profile, particularly for retirees and income-focused investors. Dividends, however, are not guaranteed and may be reduced or eliminated at any time, which can negatively impact both income and total return.

## **Quality at Reasonable Valuations**

Many Dogs constituents are long-standing blue-chip companies with diversified businesses and significant scale. In periods of market uncertainty, some investors may prefer these types of holdings over more speculative exposures. Even so, high-quality companies can experience earnings disappointments and price declines, and they may underperform more growth-oriented strategies for extended periods.

## **Historical Context**

Historically, there have been periods when the Dogs strategy has outperformed and other periods when it has lagged the broader market and growth-oriented indexes. While strong prior years like 2025 can raise interest in the approach, historical results should not be viewed as a reliable indicator of future performance.

## **Risks and Considerations for 2026**

Despite its rules-based nature and focus on dividends, the Dogs strategy involves meaningful risks:

### **Economic and Market Uncertainty**

Geopolitical developments, inflation trends, and monetary policy shifts could lead to volatility that affects all equities, including higher-yielding blue chips. The strategy's reliance on value and yield does not insulate investors from broad market drawdowns.

### **Sector and Factor Concentration**

Because the strategy selects the highest-yielding Dow constituents, it can become concentrated in sectors under near-term pressure—such as telecommunications, energy, or financials—at exactly the time those areas face elevated risks. This concentration may increase volatility relative to more diversified approaches.

### **Dividend Sustainability**

Elevated dividend yields can signal market skepticism about a company's fundamentals. If a company reduces or suspends its dividend, the stock may experience significant price weakness, and the strategy may need to reallocate at an unfavorable time.

### **Competition from Growth Stocks**

In environments where technology and other growth stocks lead the market, the Dogs' value-oriented profile may lag more growth-focused strategies. Investors should be prepared for stretches of relative underperformance.

### **Implementation Considerations for 2026**

For investors and advisors evaluating whether and how to incorporate the Dogs strategy in 2026, implementation choices can meaningfully affect outcomes:

### **Portfolio Role and Sizing**

Some investors may choose to treat the Dogs allocation as one component within a broader equity portfolio—such as 20% to 30% of equity exposure—

alongside other styles, sectors, or geographies. The appropriate allocation depends on individual objectives, risk tolerance, and overall asset mix.

### **Tax Awareness**

Because the strategy typically involves annual rebalancing and recurring dividend payments, it can generate taxable distributions in brokerage accounts. Implementing the approach in tax-advantaged accounts may help mitigate current-year tax impact, though investors should consult a tax professional regarding their specific circumstances.

### **Complementary Strategies**

Pairing Dogs of the Dow exposure with growth-oriented, sector-diversified, or international holdings can help balance style and sector tilts across the portfolio. Diversification does not ensure a profit or protect against loss but can help manage risk.

### **Monitoring and Rebalancing**

While the classic implementation rebalances annually based on year-end yields, investors and advisors may also monitor positions throughout the year for fundamental changes, dividend-policy shifts, or significant valuation moves. Any deviations from the original rules should be applied consistently and thoughtfully.

### **Equal Weighting**

Maintaining approximately equal dollar weights across the 10 Dogs helps maintain diversification within the strategy and avoids over-reliance on any single stock. Transaction costs, bid-ask spreads, and tax implications should be considered when rebalancing.

### **The Bottom Line: A Rules-Based Dividend Strategy with Trade-Offs**

The Dogs of the Dow strategy has attracted attention from dividend and value-oriented investors for several decades, in part because of its transparent rules and focus on established companies with above-average

yields. The strong results observed in 2025 highlight how, in certain market environments, this approach can compare favorably with the broader Dow. However, the strategy also carries sector, stock-specific, and style-tilt risks and has experienced periods of underperformance.

For investors seeking a structured way to combine dividend income with exposure to large-cap U.S. stocks, the 2026 Dogs portfolio may represent one potential tool among many. Determining whether it is appropriate requires careful consideration of overall financial objectives, time horizon, risk tolerance, tax situation, and existing holdings. Investors should consult with a qualified financial professional before implementing or modifying any investment strategy. Past performance does not guarantee future results, and all investing involves risk, including the possible loss of principal.

### **Useful for Some, Not for Everyone**

The Dogs of the Dow strategy remains a popular and effective way for income-focused investors to gain exposure to some of the largest and most established companies in the U.S. stock market. While the strategy could be successful in 2026 due to high dividend yields, mean reversion, and resilient sectors, it also faces potential headwinds, such as economic uncertainty, changing market dynamics, and limited growth potential.

As always, it is important for investors to carefully evaluate their goals, risk tolerance, and investment horizon before pursuing any strategy. The Dogs of the Dow can be a useful tool for some, but it may not be the right fit for every investor in every market environment.



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