MANAGING YOUR MONEY

These Dogs May Guard Your Portfolio

(NAPSA)—Investment in mature companies with depressed stock prices doesn't necessarily mean you're barking up the wrong tree. You may just be following an investment strategy known as the "Dogs of the Dow."

The strategy entails purchasing, in equal dollar amounts, the 10 highest-dividend-yielding stocks in the Dow Jones Industrial Average (DJIA) and holding hem for one year. A stock's dividend yield equals the annual dividend paid by a company divided by the price of a share of that stock. After one year, the stocks are readjusted in order to maintain the top 10 highest dividend-yielding stocks.

Investment professionals often consider relatively high dividend yields as a signal that a stock may be undervalued, with opportunity for the stock price to move higher.

The theory is that over time, the "Dogs of the Dow" portfolio will outperform the general market, and the Dow Jones Industrial Average, specifically.

For example, over the past three calendar years, the "Dogs" have an average annual return of 8.1 percent, while the DJIA sits at 6.2 percent, and the S&P 500 lags behind at 5.8 percent. Looking at the previous five calendar years, the numbers are stronger for the "Dogs" at 5.1 percent compared to the DJIA at 1.7 percent, the S&P at 0.7 percent.

It's important to also consider the relative performance of the "Dogs" provide in a down market environment. In 2000, the "Dogs of the Dow" offered a healthy return of 6.4 percent, while the DJIA plummeted to -4.7 percent.

When the S&P 500 hit a devastating low of -22.1 percent, the "Dogs" suffered much less with a return of -8.9 percent.

"It's not always what you make on the upside, it's also what you don't lose on the downside," says Neil Hennessy, president and portfolio manager of Hennessy Funds.

The "Dogs of the Dow" investment strategy targets undervalued stocks that post relatively high dividend yields.

One of the greatest benefits of the 'Dogs of the Dow' philosophy is that it identifies potential values by investing in established companies whose prices look to be undervalued," adds Hennessy.

"Stocks with a high dividend yield are undervalued. If the price of a stock is low, and the company can continue to pay a dividend, then the stock price should eventually rise again in the future."

Hennessy, who recently ranked 8th on Barron's most recent list of Top 100 Mutual Fund managers, is credited with being the first money manager to use the "Dogs of the Dow" investment philosophy in a mutual fund format.

He's of the opinion that when held for the long term, the "Dogs" present an excellent investment opportunity. Two mutual funds that employ the "Dogs of the Dow" strategy are the Hennessy Balanced Fund (HBFBX) and the Hennessy Total Return Fund (HDOGX).

The Balanced Fund's strategy is a 50/50 split between the "Dogs of the Dow" stocks and U.S. Treasury securities. The "Total Return Fund" uses a slightly more "Dogs"-heavy approach, with a 75/25 split among the "Dogs of the Dow" stocks and U.S. Treasury securities. To learn more, visit their Web site at www.hennessyfunds.com or call 1-800-966-4354.