Our Favorite End of Year Strategies 2017

Seasonal trading theories are a dime a dozen.

- The first half of the year tends to bring better returns than the second half.
- Dow Jones Industrial Average stocks whose price was beaten down in the previous year have a tendency to outperform the rest of the DJIA in the following year.
- There's even the theory that markets in the northern and southern hemispheres predictably succumb to the winter blues, or Seasonal Affective Disorder.
- There's the January Effect -- that expected time of year when tax conscious investors sell stocks to write off losses against capital gains. The "tax sell-off" would depress stock values lower until buyers came back in early January.
- There's the "Sell in May and go away" idea that hasn't worked so well.

And while some are ridiculous and unworthy of attention, we have three favorites, including the "New Years Resolution," "the Holiday Rally," and the "Dogs of the Dow."

The Dogs of the Dow 2018

With the Dogs of the Dow, you're simply buying the highest yielding 10 Dow Jones stocks that fell out of favor, investing an equal amount in each, liquidating by January 1 of the following year, and repeating for nearly predictable rewards.

Even better, it's easy to use, and it performs well.

The way you pick the Dogs is very simple.

When the year starts, look at the top 10 yielding dividend stocks in the Industrials. Invest equal amounts of money in all 10 stocks. Then, hold onto those stocks throughout the year. At the end of the year, we do it all over again.

While some, including Barron's once reported that the *"Dogs of Dow Investing Strategy no Longer Works,"* that's not true. Others have noted that research confirmed back in 2007 that the Dogs of the Dow is no longer a successful concept.

And still others argue investors are barking up the wrong tree with the theory.

While 2007 was flat, followed by a 38.8% decline in the Dogs for apparent subprime reasons, the Dogs have returned a gain every year since.

In fact, in 2009, they were up 16.9%. In 2010, they jumped 20.5%.

In 2011, there were up 16.3%. In 2012, they jumped 9.9%. In 2013, they returned 34.9%. In 2014, they returned 10.8%.

In 2015, they did okay, returning just 2.6%.

In 2016, the Dogs returned 16% on average. So the idea that the theory is dead is laughable.

So far, in 2017:

- Verizon (VZ) is nearing breakeven from where it started the year at $52
- Pfizer (PFE) ran from $32 to $36 so far
- Chevron (CVX) ran from $116 to $119 so far

- Boeing (BA) ran from $150 to $276
- Cisco (CSCO) ran from $29 to $37
- Coca-Cola (KO) ran from $40.50 to nearly $46
- IBM (IBM) fell from $160 to $154
- Exxon Mobil (XOM) fell from $88 to $83
- Caterpillar (CAT) ran from $90 to $141
- Merck (MRK) fell from $59 to $55

While there are some laggards in there, the 2017 Dogs have done well overall.

Even the ELEMENTS Dogs of the Dow ETN (DOD) did okay, running from a January 2017 low of $18 to $22. Believing the Dogs will do even better in 2018, we can always buy the ETN now.

While the 2018 Dogs of the Dow have not yet been released, one of them is likely to still be Merck (MRK), given its year to date performance. Better yet, Merck is greatly oversold at this point and could refill a bearish gap at $62 with patience.

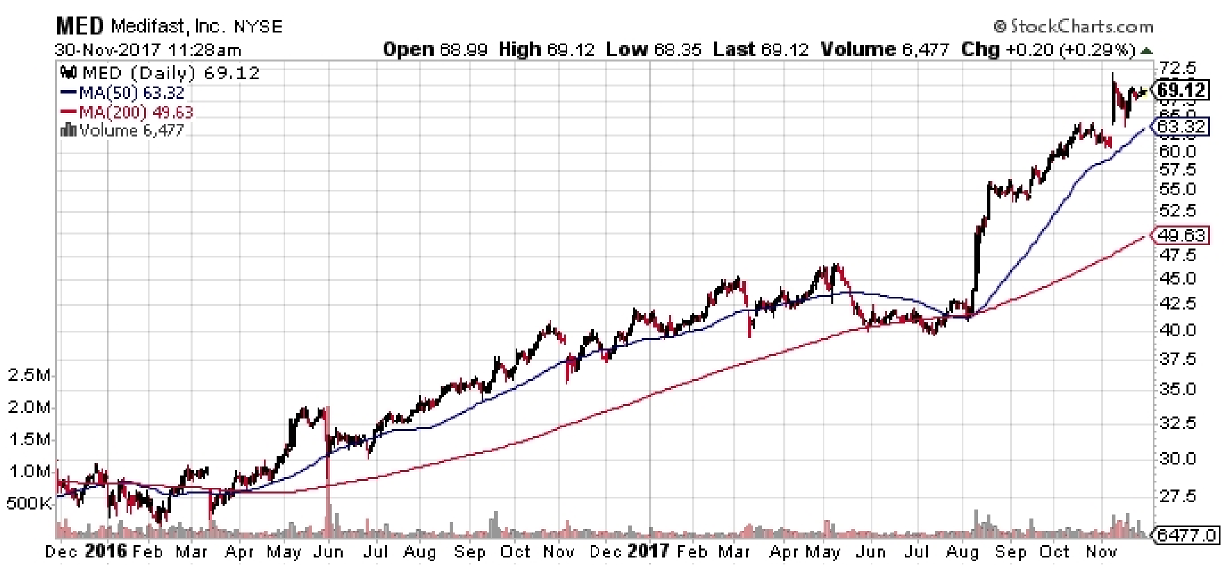
What we can do here is buy the MRK stock as well as the MRK January 18, 2019 57.50 call options. By buying them so far out, we can just set it and forget it for a year and wait for a potential rebound to higher highs.

New Years Resolution

This is the time of year when we buy one beaten down diet stock and watch it jump around the time of year when Americans (about 90% of them, according to Johns Hopkins Medicine) make their New Year's resolution to lose weight, diet, and exercise more, which usually ends in passing on the resolution until next year.

We all have weight to lose. We get motivated and say next year will be different. We join the gym. We join a weight loss clinic. We're really going to do it this year.

In many years, shares of Medifast (MED) have moved higher late in the year. Even Weight Watchers (WTW) had a history of running a big higher in the latter part of the year.

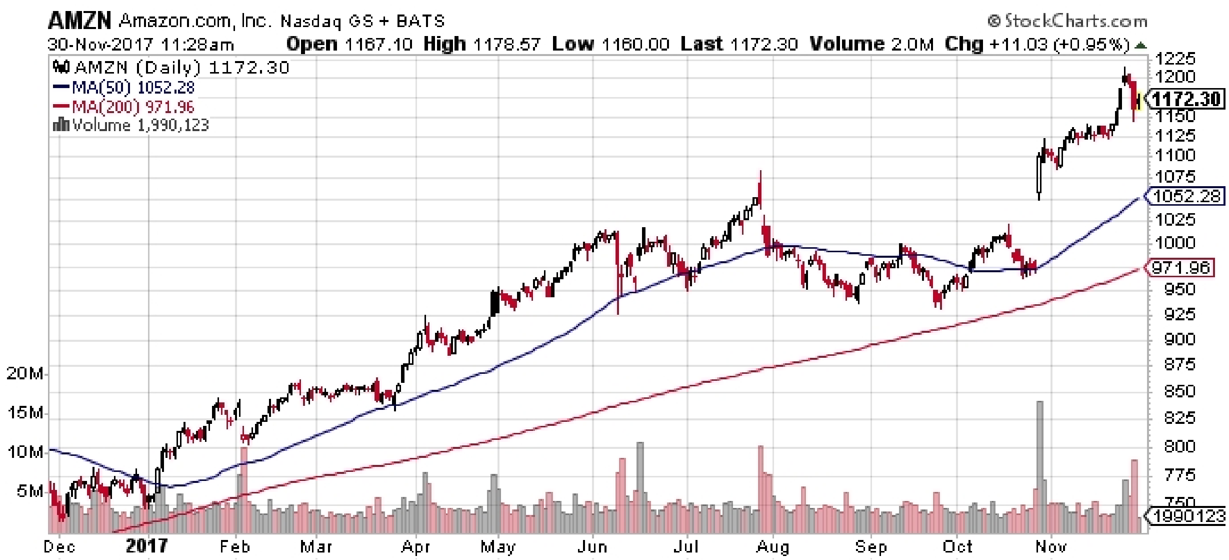


The Holiday Rally

We can even watch for potential rallies higher in retailers and shipping stocks between Black Friday and Christmas. For example, Black Friday 2017 was very good to related stocks.

More than 174 million Americans went shopping between Black Friday and Cyber Monday 2017, according to the National Retail Federation (NRF), as compared to expectations for 164 million. In fact, U.S. retailers racked up $2.87 billion on Thanksgiving, and another $5.03 billion on Black Friday, according to Adobe Analytics. Cyber Monday sales hit $6.59 billion – the largest online total for a shopping day in the U.S.

It is part of the reason that shares of Amazon.com (AMZN) soared from $980 in October 2017 to more than $1,200 in November 2017.



Even brick and mortar retailers that boosted their online efforts have done well, even as store foot traffic fell 2% year over year as Americans ordered online.

- Macy's (M) ran from $17.50 to $22
- Gap (GPS) ran from $25.50 to $31
- Kohl's (KSS) ran from $41 to $46
- J.C. Penney (JCP) ran from $2.50 to $3.50
- Wal-Mart (WMT) ran from $90 to $97

Even the shipping stocks picked up good momentum. UPS for example ran from $113 to $121. FedEx (FDX) ran from $217.50 to $230. We can even watch for post-holiday season pullbacks. For example, after exploding higher in 2016, UPS fell from $117.50 to $100. In 2015, the stock fell from $97.50 to $80.

At this point, many of these holiday stocks have run up nicely. We may be able to trade the pullbacks in each shortly and then go long again. We'll keep you posted on how to trade.