

It is time to close the books on a year like we've never seen before.

Let's put together an investment and trading plan for

**2021**



## Dogs of the Dow- the "Flying Five"

The Dogs of the Dow strategy had a wild ride this year. The same can be said for the entire market for that matter, with COVID-19 causing a global pandemic. Despite the pandemic still being prevalent and cases of people contracting the virus and dying from it still on the rise, the **Dogs of the Dow (DOTD)** has held up the best it can. Its performance for 2020 compared to that of 2019 is down, with the two biggest drags on it being the two oil/energy stocks Exxon and Chevron.

The long-term history of the Dogs of the Dow and the **Small Dogs (aka Flying Five)** still makes this a long-term strategy I feel confident in. So much so, I have constructed this report to teach you about it and have you discuss with your financial professional(s) as to whether or not it is something you wish to pursue.

In this special report, I am going to discuss the performance of both the Dogs of the Dow and the Small Dogs, aka the Flying Five for 2020, educate you on the strategy, and highlight the stocks that comprise these both for 2021. Last, I am going to highlight long-term option strategies for the Flying Five for 2021.

Keep in mind these option strategies are examples of what one can pursue if they find it a viable choice to employ with some of their investment/trading capital. These are not going to be recommendations as I am not advocating anyone do these.

My job is to educate people on option trading strategies. It is to show traders a means to find a repeatable and what I deem a reliable pattern to employ the option strategies on. It's then on the person and their broker or investment professional to decide if it is appropriate for their portfolio.

# 2020 Performance thus far

The markets peaked in February of 2020 at just over 29,000.

Then the pandemic hit the world over.

The US economy was hit with a great number of businesses shutting down. Other companies deemed 'essential' were able to remain open, but the amount of sales of their products took a major hit and earnings weren't as robust as they could have been and for many, still aren't.

Some of the hardest-hit industries are Airlines, Hotel/Motel, and Restaurants.

There were companies that thrived in this environment due to their business model being one that benefitted from people being stuck at home. Businesses that had a strong online presence like online sales, online conferencing, online gaming, and streaming entertainment companies did well. Another sector that thrived were the shipping and distribution companies who saw an increase in demand for their services due to online sales.

The Dow 30 is a diversified group of stocks that are deemed the best in representing the health of the U.S. economy.

The table below retrieved from my software [www.tomsoptiontools.com](http://www.tomsoptiontools.com) shows the performance of the 10 Dogs of the Dow for 2020 ranked by 'Forward Dividend Yield', Highest to Lowest' thus far for 2020.

With only a few weeks left before the end of the year, these numbers will change. I don't anticipate a dramatic change, but they will be different by the end of the year.

Rank	Name	Stock	Ex Dividend Date	Dividend Yield Ex Div (%)	Dividend Yield Forward (%)	Dividend Yield Trailing (%)	Latest Dividend Amount (\$)	Dividends Per Year	Latest Dividend Change (%)	Stock Close Price
1	<input checked="" type="checkbox"/> CHEVRON	<a href="#">CVX</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-11-17	5.93	5.71	5.71	1.29	4	0.68	90.33
2	<input checked="" type="checkbox"/> INTERNATIONAL BUSINESS MACHINE	<a href="#">IBM</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-11-09	5.64	5.25	5.24	1.63	4	8.05	124.21
3	<input checked="" type="checkbox"/> Dow Chemical	<a href="#">DOW</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-11-27	5.05	5.23	6.54	0.70	4	-16.94	53.50
4	<input checked="" type="checkbox"/> Walgreen Boots Alliance Inc	<a href="#">WBA</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-11-18	4.90	4.31	4.27	0.47	4	6.75	43.40
5	<input checked="" type="checkbox"/> VERIZON COMMUNICATIONS	<a href="#">VZ</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-10-08	4.24	4.07	4.01	0.63	4	-7.02	61.65
6	<input checked="" type="checkbox"/> 3M	<a href="#">MMM</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-11-19	3.43	3.40	3.40	1.47	4	-5.77	172.75
7	<input checked="" type="checkbox"/> CISCO SYSTEMS	<a href="#">CSCO</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-10-01	3.71	3.28	3.25	0.36	4	17.41	43.95
8	<input checked="" type="checkbox"/> COCA-COLA	<a href="#">KO</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-11-30	3.18	3.11	3.87	0.41	4	-1.55	52.69
9	<input checked="" type="checkbox"/> MERCK	<a href="#">MRK</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-09-14	2.90	3.00	3.00	0.61	4	-9.38	81.44
10	<input checked="" type="checkbox"/> JPMORGAN CHASE	<a href="#">JPM</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-10-05	3.63	2.96	2.96	0.90	4	-6.68	121.44

Image courtesy of [www.tomsoptiontools.com](http://www.tomsoptiontools.com)

This special report is going to educate you on this year-long strategy for both the Dogs of the Dow and the Flying Five. It will then show you option trade ideas on the Flying Five as a leveraged way to partake in this strategy if one doesn't have the capital necessary to just invest in the stocks.

The options I will demonstrate for you are not recommendations as I already stated. I am doing this to show you an alternative way one can participate in the strategy by using LEAPS (Long-term Equity Anticipation Securities) options trades and create Debit Spreads with these LEAPs options as a way to have much less capital at risk.

The performance of this basket of both the Dogs of the Dow and Small Dogs 2020 vs 2019.

Index	Description	Price 12-31-19	Yield 12-31-19	Price 12-2-20	Yield 12-2-20	Change *Note 1
Dogs of the Dow	10 highest yielding Dow stocks on 12/31/19	-	3.90%	-	4.73%	-12.2%
Small Dogs	5 lowest priced Dogs on 12/31/19	-	3.58%	-	4.02%	-8.9%
Dow 30	30 Dow stocks on 12/31/19	-	2.60%	-	2.76%	-2.5%
DJIA	Dow Jones Industrial Index	28,538.44	2.60%	29,883.79	2.76%	4.7%

Image courtesy of [www.tomsoptiontools.com](http://www.tomsoptiontools.com)

One can see the performance of the Dogs (and if it says yes to it being a small dog, know that is also a Flying Five stock), so far this year. As a batch, they may not be doing better than last year, but for the year, not compared to any previous year, each stock is up for 2020.

Symbol	Company Dow stocks ranked by yield on 12-4-20	Price 12-4-20	Yield 12-4-20	Small Dog 12-4-20
CVX	Chevron	93.28	5.53%	No
IBM	IBM	127.20	5.13%	No
DOW	Dow	55.05	5.09%	Yes
WBA	Walgreens	43.41	4.31%	Yes
VZ	Verizon	61.55	4.08%	Yes
MMM	3M	172.46	3.41%	No
CSCO	Cisco	44.38	3.24%	Yes
MRK	Merck	81.94	3.17%	No
KO	Coca-Cola	53.85	3.05%	Yes
JPM	JP Morgan Chase	122.34	2.94%	No

Image courtesy of [www.tomsoptiontools.com](http://www.tomsoptiontools.com)

This is considered a passive investment strategy. It takes minimal effort and can be executed simply each ongoing year as the investor wishes. Because of this, many investors consider this a go-to strategy.

This strategy constitutes purchasing a grouping or basket of stocks. The strategy calls for the investor to hold these stocks for the full year AND collect the dividends on those stocks, regardless of what the overall equities markets/indices gain or lose on a percentage basis.

From an investing perspective, collecting the dividend is a major reason for doing this. Price gains in the stocks are also a plus, but dividends are the key draw and those stocks with the 10 highest yielding dividends are the ones chosen to invest in. One attraction to this strategy is its simplicity.

After the stock market closes on the last day of the year, of the 30 stocks that make up the Dow, select the ten stocks which have the highest dividend yield.

The strategy then calls for one to invest an equal dollar amount in each stock that qualifies as a Dog. From there, one holds these ten Dogs for one year.

At the end of the year, if one is not going to reallocate to the new dogs for the upcoming year, one can sell and cash out for any capital gains in the stock added to the dividends one collected along the way for that year.

The collection of the dividends is considered a safety metric of the strategy. Dividends collected increase the profitability over just the gains in the stock prices. Should a stock decline the total dividend amount, the worst that happens is a break-even on the stock.

No strategy works 100% of the time, but this works often enough I believe it is necessary to educate you on it.

Three more reasons I believe this strategy works:

- **Diversification:** The Dow Jones Industrial Average is comprised of 30 stocks over multiple sectors
- **Contrarian Strategy:** Investment in sectors rotate and this gives you a chance to buy into undervalued or the lower priced stocks in the Dow with the anticipation of price gains in the coming year.
- **Value Investing:** The decreased price may attract buyers in those they deem at an attractive multiple or value. Also, a decrease in price makes for an increase in yield.

## Collecting Dividends

When it comes to Dividend payouts, there are 4 dates to pay attention to.

**Declaration Date** - The date on which the company announces the dividend payment. This would also include the dividend's size, ex-dividend date and payment date. It is also referred to as the "announcement date".

**Ex-Dividend Date** – the date on or before you must own the stock by in order to receive the dividend payout. If you purchase the stock after the ex-dividend date the seller will receive the dividend. This is normally two business days before the dividend is released to shareholders.

**Record Date** – a date showing an accounting of all shareholders on record to receive a payable dividend.

**Payable Date** – the date in which the dividend is paid out to shareholders.

In order to get the dividend, one would have to own the stock before what is called the ex-dividend date. One would then get the dividend on what is referred to as the payable date.

The good news is that based on it being a one year strategy, this is not a problem. One would be holding the stock through the entire year of dividend cycles.

## 2020 Dogs of the Dow

The data below shows what the price and yield is of these Dogs as of the time of this report, which is mid-December. Ranked by 'Forward Dividend Yield'. The two tables are the Dogs of the Down and then the Flying Five.

### 2020 Dogs of the Dow

Rank	Name	Stock	Ex Dividend Date	Dividend Yield Ex-DIV (%)	Dividend Yield Forward (%)	Dividend Yield Trailing (%)	Latest Dividend Amount (\$)	Dividends Per Year	Latest Dividend Change (%)	Stock Close Price
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Image courtesy of [www.tomsoptiontools.com](http://www.tomsoptiontools.com)

There were a couple of more weeks to go for 2020, but rest assured my tools will be able to determine the 10 Dogs for 2021 with the same valuable data provided as you see in the images of the table above.

### Reiteration of the Strategy

After the stock market closes on the last day of the year, of the 30 stocks that make up the Dow, select the ten stocks which have the highest dividend yield.

The strategy then calls for one to invest an equal dollar amount in each stock that qualifies as a Dog. Hold these ten Dogs for one year. At the end of the year, sell.

# 2020 Puppies of the Dow (Small Dogs) aka 'Flying Five'

The strategy is the same and the means to execute investing in the Flying Five is the same.

Once you know the 10 Dogs of the Dow, take the five lowest-priced of those 10. These make up the 'Flying Five'.

They offer a smaller stock price (of the 10) and are considered safer due to stock price. The investment strategy is no different in that one buys the first trading-day of the year. Buy equal dollar amounts of each. Hold for the year and anticipate selling the last trading day of the year.

The table below shows the Flying Five for 2021 based on pricing and dividends as of the writing of this report a couple of weeks before the end of 2020. Ranked by 'Forward Dividend Yield'.

Rank	Name	Stock	Ex Dividend Date	Dividend Yield Ex-Div (%)	Dividend Yield Forward (%)	Dividend Yield Trailing (%)	Latest Dividend Amount (\$)	Dividends Per Year	Latest Dividend Change (%)	Stock Close Price
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4	<input checked="" type="checkbox"/> CISCO SYSTEMS	<a href="#">CSCO</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-10-01	3.71	3.24	3.22	0.36	4	17.41	44.38
5	<input checked="" type="checkbox"/> COCA-COLA	<a href="#">KO</a> <a href="#">Chart</a> <a href="#">pic</a> <a href="#">News</a>	2020-11-30	3.18	3.05	3.79	0.41	4	-1.55	53.85

Image courtesy of [www.tomsoptiontools.com](http://www.tomsoptiontools.com)

## Two Option Strategies to Consider

### Long Calls

An option is a contract that gives one the right to buy or sell 100 shares of a security at a specific price on or before (American-Style) a specific date. The specific price is the strike price and the specific date is the expiration date.

A Call option is the right to buy and that is the consideration here. The LEAPS option is one that has an expiration a year or more out in time. The goal is to have the underlying security trade higher in price later in the time. This way the right to buy the stock at market price is higher than the strike price so the value of the option goes higher. The higher the stock goes the higher the option price goes.

Since these LEAPS expire a year out, I anticipate the stock going much higher over the course of the year from where it starts in January.

### Call Debit Spread

A debit spread is created when one opens two option trades, a Buy-to-Open and a Sell-to-Open position on the same order ticket. The strike prices are different, but the expiration (a consideration are the LEAPS that

expiry January 21, 2022) and number of contracts are the same. The option trader buys-to-open a call option for one expiration at one strike price; the lower-priced option of the two.

The option trader then, on the same order ticket, sells-to-open the same amount of calls with the same expiration date at a different price; a higher strike price. The purpose of the sold-to-open call option is to offset or hedge the cost of the long call or the bought-to-open option.

The resulting cost of the trade is what's known as the net debit, hence this spread trade is also known as a Call Debit Spread.

## Wrap

The reason I have elected to show you the Call Debit Spreads (using LEAPS) on the 'Flying Five' is to provide a different approach - an options trading approach to this pattern that allows those without the capital to 'purely invest' in it.

Recognize that by owning the options or having a call debit spread on these stocks you do not own them and therefore forfeit the opportunity to collect the dividends. If you want to go after the dividend benefit of owning these, by all means, that is your decision.

Should one stick with this option strategy and approach to trading the Dogs or the Flying Five, maybe over time enough money can be earned to then start putting that money to work in owning these.

I wish you all the best going forward with or without this strategy or one of its derivations.

Being I am not a Registered Investment Advisor, nor do I know your short-term or long-term financial goals, I can't tell you to do this nor should I even say you should.

I am simply introducing you to and educating you on one of many processes I know of making money in the financial markets. It is up to you if and how you want to employ what I have shown.

Please consult with a broker(s) / financial professional(s) for the suitability to their account for any or all of these approaches. My personal process to earning money in the markets is to spot an opportunity, build a low-risk option strategy around it, and manage the investments and trades accordingly.

I welcome each and every one of you to search out my YouTube channel:

<https://www.youtube.com/user/TomsTradingRoom>

I also have an online suite of options analysis software. It is [www.tomsotpiontools.com](http://www.tomsotpiontools.com) aka the 'Tools'. There I and my team of like-minded options traders and world-class programmers provide a means to analyze ideal options trading scenarios based on specific sets of technical analytics and rules-based criteria that have been backtested to an appropriate level of success.

We use these tools ourselves to find option trades and we can teach you how to use the software in the same manner.

My company, Tom's Trading Room, LLC has live online, email, and phone support during all US market hours. We stand by to help you gain or improve upon your trading skills.



**Tom Gentile**  
Owner and CEO Tom's Trading Room, LLC