

*Looking
Forward
in 2022*

The books
have closed
on 2021.

Let's look
into an
investment
and trading
plan for
2022



Dogs of the Dow

Last year I wrote in this report that the *Dogs of the Dow* strategy had a wild ride in 2020. Although it hasn't been the smoothest of rides in 2021, the strategy worked with the **Dogs of the Dow** (DOTD) showing a positive return of 11% on the year. The **Small Dogs** (aka Flying Five) strategy also had a positive return on the year showing a gain of 14.4%.

The same can be said for the entire market for that matter.

For two years now we have been living with the concern of COVID-19 and its variants.

There have been a great many improvements in the pursuit of finding a cure, or at least a means to quell the spread of it with many people getting the vaccine and the subsequent booster. Not everyone has though, and it may never get to where we have 100% of people doing so.

I was hoping to write that at the end of 2021 we were getting to the point where things are improving. That there would be optimism in our economy opening up more and more, a recovery trade/investment could be in order, and then just like that, in November... the day after Thanksgiving no less, word of another variant called omicron comes out of South Africa and it put us all back into a state of concern and worry all over again.

While many of the industries that seemed most vulnerable to the virus concerns remain at risk, US Fed Chairman Powell started talking about how this virus is going to impact the Fed's decision on potential interest rates hikes and tapering of their 'easy money' policy for 2022.

Despite all this, the markets ended up higher on the year, and both the Dogs of the Dow (DOTD) and the Small Dogs (aka Flying Five) strategies worked again. Both of these strategies are long-term and its overall successful history over the years and what it has done in the face of all the uncertainty with the virus and its potentially adverse effect on the economy keeps me confident in it.

I put this report together every year to help educate you about these strategies so you can review them with your financial professional(s) as to whether or not it is something you wish to pursue. I am not a Registered Investment Advisor (RIA) and that is why I tell you to discuss these with your account professionals.

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 2021, educate you on the strategy, and highlight the stocks that comprise these both for 2022. Lastly, I am going to explain a long-term option strategy for stocks that make up the Flying Five for 2022.

Dogs of the Dow Strategy (core version)

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.

2021 Dogs of the Dow

The data below, from my software tomsoptiontools.com, shows the performance of the 10 Dogs of the Dow for 2021 ranked by 'Forward Dividend Yield', highest to lowest.

These are the numbers taken after the close of markets on Friday, December 21, 2021.

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"/> VERIZON COMMUNICATIONS	VZ Chart pic News	2021-10-07	4.75	4.89	4.82	0.64	4	5.32	52.35
2	<input checked="" type="checkbox"/> INTERNATIONAL BUSINESS MACHINE	IBM Chart pic News	2021-11-09	5.43	4.87	4.87	1.64	4	17.03	134.62
3	<input checked="" type="checkbox"/> Dow Chemical	DOW Chart pic News	2021-11-29	4.92	4.86	4.86	0.70	4	12.33	57.64
4	<input checked="" type="checkbox"/> CHEVRON	CVX Chart pic News	2021-11-17	4.64	4.49	4.44	1.34	4	-16.25	119.48
5	<input checked="" type="checkbox"/> Walgreen Boots Alliance Inc	WBA Chart pic News	2021-11-12	3.86	3.62	3.58	0.48	4	-3.98	52.87
6	<input checked="" type="checkbox"/> MERCK	MRK Chart pic News	2021-12-14	3.74	3.62	3.47	0.69	4	3.60	76.16
7	<input checked="" type="checkbox"/> 3M	MMM Chart pic News	2021-11-18	3.31	3.34	3.34	1.48	4	8.52	177.29
8	<input checked="" type="checkbox"/> AMGEN	AMGN Chart pic News	2021-11-15	3.39	3.14	3.14	1.76	4	11.15	224.51
9	<input checked="" type="checkbox"/> COCA-COLA	KO Chart pic News	2021-11-30	3.20	2.87	2.87	0.42	4	5.96	58.63
10	<input checked="" type="checkbox"/> INTEL	INTC Chart pic News	2021-11-04	2.77	2.65	2.65	0.35	4	7.36	52.49

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.

In order to get the dividend, you would have to own the stock before the ex-dividend date. Then you would 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, you would be holding the stock through the entire year of dividend cycles.

2021 Small Dogs aka 'Flying Five'

The Flying Five strategy is the same this year as it has been in the past. 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 the number taken after the close of markets on Friday, December 31, 2021. 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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An Option Strategy to Consider

Granted the Dogs of the Dow and the Flying Five strategy is based on buying an equal dollar amount of shares of stock, one can instead use the power and leverage of options trading to have an opportunity for higher percentage gains with reduced cost. The options approach I've educated folks on for the past few years is the Call Debit Spread. I like that approach again for this year.

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 both the expiration and number of contracts are the same. The consideration for options expiration I am using in this report is the LEAPS (Long-term Equity Anticipation Securities) options that expiry January 21, 2022. 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 number 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 is known as the net debit, hence this spread trade is also known as a Call Debit Spread.

The approach I am going to consider is LEAPS option trades on the Flying Five. I am going to use tools within my software (tomsoptionstools.com) to research a slightly Out-of-the-Money (OTM) Calls Debit Spread where the stock is lower than either both strikes or at least the sold strike of the spread.

Here is an example: *This is an example and not a recommendation*

DOW January 20, 2023 55/60 Call Debit Spread.

Stock: DOW Stock News Name: Dow Chemical Sector: Miscellaneous Chemical Products Dividend: 4.92 % (2021-11-29) 100 Day SV: 26.30% Trade: DOW 23Jan20 55-60 Call	<table border="1"> <thead> <tr> <th>Quote Type</th> <th>Entry Debit</th> <th>Profit</th> <th>Rate of Return</th> <th>Max Profit</th> <th>Max Risk</th> <th>Delta (Shares)</th> <th>Gamma</th> <th>Vega</th> <th>Theta</th> </tr> </thead> <tbody> <tr> <td>Natural</td> <td>\$220.00</td> <td>\$-25.00</td> <td>-11.4%</td> <td>\$280.00</td> <td>\$-220.00</td> <td>10.57</td> <td>-0.028</td> <td>\$0.08</td> <td>\$0.05</td> </tr> <tr> <td>Mid Quote</td> <td>\$220.00</td> <td>\$-3.00</td> <td>-1.4%</td> <td>\$280.00</td> <td>\$-220.00</td> <td>10.91</td> <td>-0.095</td> <td>\$0.08</td> <td>\$0.03</td> </tr> <tr> <td>Optimistic</td> <td>\$220.00</td> <td>\$20.00</td> <td>9.1%</td> <td>\$280.00</td> <td>\$-220.00</td> <td>11.28</td> <td>-0.162</td> <td>\$0.09</td> <td>\$0.00</td> </tr> <tr> <td colspan="2">Downside Breakeven</td> <td colspan="2">Upside Breakeven</td> <td colspan="2">Max Profit/Max Risk</td> <td colspan="4">Max Profit/Cost</td> </tr> <tr> <td colspan="2">57.20</td> <td colspan="2">57.20</td> <td colspan="2">127.27%</td> <td colspan="4">127.27%</td> </tr> </tbody> </table>	Quote Type	Entry Debit	Profit	Rate of Return	Max Profit	Max Risk	Delta (Shares)	Gamma	Vega	Theta	Natural	\$220.00	\$-25.00	-11.4%	\$280.00	\$-220.00	10.57	-0.028	\$0.08	\$0.05	Mid Quote	\$220.00	\$-3.00	-1.4%	\$280.00	\$-220.00	10.91	-0.095	\$0.08	\$0.03	Optimistic	\$220.00	\$20.00	9.1%	\$280.00	\$-220.00	11.28	-0.162	\$0.09	\$0.00	Downside Breakeven		Upside Breakeven		Max Profit/Max Risk		Max Profit/Cost				57.20		57.20		127.27%		127.27%			
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Leg Date	Position	Num	Option Symbol	Expire	Type	Entry
2021-12-31	Bought	1	DOW230120C55	2023 Jan 20	55 Call	6.75
2021-12-31	Sold	1	DOW230120C60	2023 Jan 20	60 Call	4.55

The reason I chose 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.

And just because expiration is in January of 2023, the strategy calls for one to close out the trade at the latest close of market on December 30, 2022. You can close this option trade out prior to that if you like a percentage return and want to collect profit sooner.

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 you to check out my YouTube channel: <https://www.youtube.com/user/TomsTradingRoom>

I also have an online suite of options analysis software. It is <https://tomsoptiontools.com> aka the 'Tools'. There, 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