



From The Chart Room

Granny Stocks Strike Back

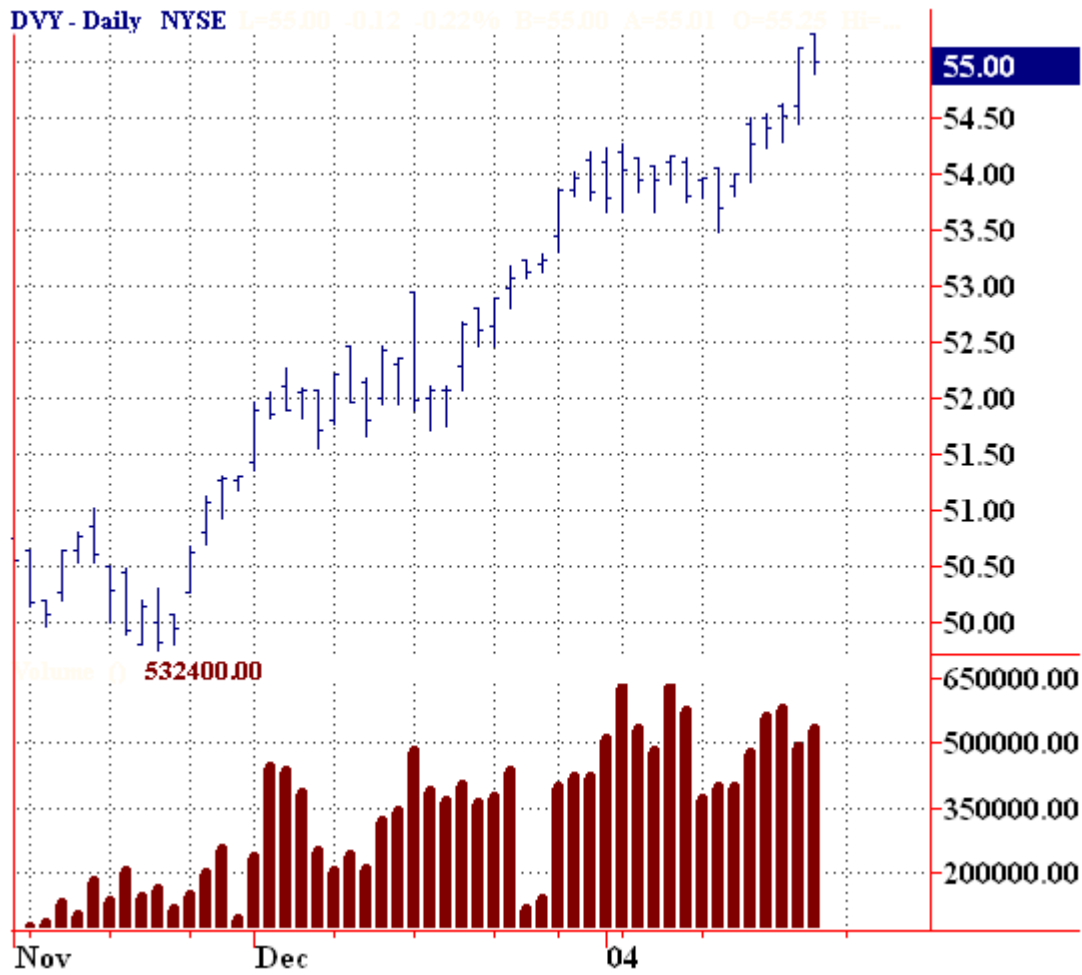
Ben Berentson, 01.22.04, 4:00 PM ET

Dr. Marvin Appel, the co-editor of [Systems and Forecasts](#), has his eye on a new exchange-traded fund (ETF) from Barclays called the **Dow Jones Select Dividend Index Fund** (amex: [DVY](#) - [news](#) - [people](#)). DVY started trading in November 2003 and tracks the Dow Jones Select Dividend Index, which contains the 50 U.S. stocks with the highest dividend yields. Stocks in the index also must have had five consecutive years of increasing dividend payouts, a five-year average payout ratio of 60% or less and an average trading volume of 1.5 million or more. DVY holdings include stocks like **Bank of America** (nyse: [BAC](#) - [news](#) - [people](#)), **General Motors** (nyse: [GM](#) - [news](#) - [people](#)), **Citigroup** (nyse: [C](#) - [news](#) - [people](#)), **Merck** (nyse: [MRK](#) - [news](#) - [people](#)) and **SBC Communications** (nyse: [SBC](#) - [news](#) - [people](#)). DVY currently trades for around \$55.

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Appel says DVY is currently in an uptrend and its longer term of "slow" MACD is above zero and rising. Appel also sees DVY as a sound source of high-yielding income that is much safer than the overall market. His back testing has shown that the Dow Jones dividend index held up better during the 2002-2003 bear market and outperformed the Dow over the past ten years. Appel is looking for a market correction during 2005-2006, but also likes DVY because it combines the best income feature of bonds with the liquidity of stocks and funds. "Right now, it's yielding around 4%. Taking into account the .4% annual expense ratio, that's 3.6%," he says. "On an after-tax basis, DVY currently generates a level of investment income similar to what is available from portfolios of individual bonds and greater interest income than most investment grade mutual funds." And it has the advantage, Appel points out, of greater increasing dividend payouts from the companies listed on the index and a low expense ratio compared to most mutual funds. Appel cautions that there may be a near-term correction in this exchange-traded fund but still believes it is a solid long-term holding.



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