

# Big Dividends with the Dogs of Dow

*According to The Dogs of the Dow theory, a selection of high-yielding stocks is expected to outperform the broader stock market. Brendan Voege, who runs SunAmerica's Focused Dividend Strategy Portfolio, has enhanced this strategy to create a 30 stock portfolio designed for capital appreciation with an emphasis on dividend yield.*

## Could you give a brief overview of the fund?

Our Focused Dividend Strategy Portfolio uses a rules-based process to select inexpensive, profitable, dividend-paying stocks. The fund employs a concentrated approach to investing, and will hold approximately 30 names at all times.

## What core beliefs guide your investment philosophy?

The core belief that guides my investment philosophy is that highly profitable, attractively valued companies outperform over time.

## How does your investment philosophy translate into an investment strategy?

My investment philosophy is translated into an investment strategy through a series of quantitative screens designed to surface profitable, attractively valued, dividend-paying companies. This is a disciplined, rules-based strategy, and I think the process will lead to repeatable long term results.

## What is the fund's mandate?

The fund seeks total return (including capital appreciation and current income) by employing a modified "buy and hold" strategy involving the selection of up to 30 high dividend yielding common stocks from the Dow Jones Industrial Average (DJIA) and broader market.

## Would you give the main reasons for investing in only dividend-paying companies?

Over the past 80 years, more than 50% of the total return of the S&P 500 Index has been generated through dividends.

Dividends are also taxed favorably, and investors can take the distributions or reinvest

them. Reinvesting dividends is a form of dollar cost averaging, and a powerful way to build wealth.

## How do you tackle situations when companies stop paying dividends?

We have a dividend hurdle, which we check monthly. If a company cuts or cancels their dividend in the middle of the month, we will sell that holding at the end of the month.

## What is your research process?

To start, we pick ten highest-yielding names within the Dow Jones Industrial Average Index. Yield is the company's indicated annual dividend amount divided by its stock price. Then we rank the Russell 1000 Index based on valuation, profitability and dividend yield, and buy the top 20.

Putting these two pieces together gives us our 30 stock portfolio.

## How does the Dogs of the Dow strategy provide a cushion against market volatility?

I think dividends are a reflection of company stability, and the Dow Jones Index represents many of the largest and most successful companies in America. Making these names the core of our portfolio helps stabilize the fund. Their stock prices do fluctuate, but large, successful companies that pay dividends should be around for a long time.

## What metrics do you apply in selecting companies from the Russell 1000 Index?

We apply valuation, profitability and dividend yield metrics for choosing companies within the Russell 1000 Index. A company that does not pay dividends will not pass our screen. While our exact calculations



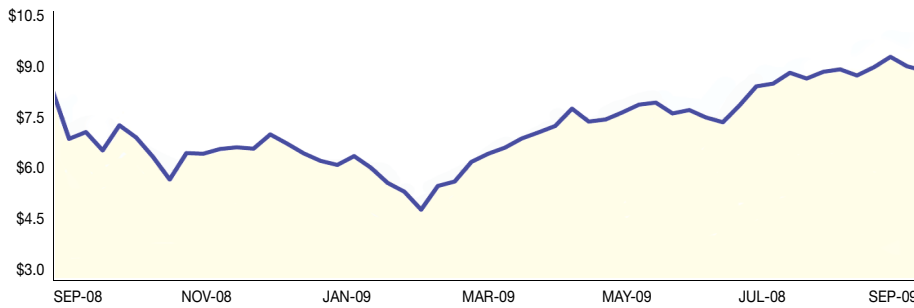
**BRENDAN VOEGE** is a portfolio manager and quantitative analyst at SunAmerica Asset Management. Before joining SunAmerica in November 2004, he was a portfolio analytics specialist with FactSet Research Systems from January 2002 to November 2004. From November 2000 to January 2002, he worked in the consulting group at FactSet Research Systems.

Voege holds a Chartered Financial Analyst designation.

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## Performance - Price History N.A.V.

SunAmerica Focused Dividend Strategy Portfolio (FDSAX)



	2006	2007	2008	2009*
S&P 500 Index	13.62%	3.53%	-39.49%	19.25%
SunAmerica Focused Dividend Strategy Portfolio	13.00%	5.00%	-34.00%	35.42%

AS OF 09/30/2009

are proprietary, price-to-earnings and return on equity are representative of the valuation and profitability metrics we employ.

### How is the stock selection different when you compare the Russell 1000 Index and the Dow Jones Industrial Average Index?

Companies in the Dow Jones Industrial Average are screened only on dividend yield, while the selection of companies in the Russell 1000 also incorporates valuation and profitability.

### What valuation metrics do you focus on while selecting a company?

Our selection process is based on current valuation relative to peers. You can see our focus on valuation by comparing the fund's average price to earnings multiple of 14 to Russell 1000 Value's multiple of 27. That means our companies, on average, are selling at almost a 50% discount to the broader market. If you equate stocks to shoes, and think about getting a 50% discount, you can understand how we are so excited about the fund's prospects.

Also look at the fund's average return on equity of 23% while the Russell 1000 Value's figure is 8%. Return on equity is a measure of a company's profitability, defined as net income divided by total shareholder's equity. That means our discounted companies are almost three times as profitable as the broader market. In our mind this combination is a potent recipe for investor success.

### What is your portfolio construction process?

The fund uses a computer-driven, quantitative process to select about 30 high dividend-paying stocks. Companies must also score

well on SunAmerica's proprietary valuation and profitability formulas. The process limits turnover, which enhances after-tax returns. At the time of purchase, each security has about a 3% weight.

This is a straightforward, repeatable process. We think the disciplined execution of this strategy will outperform over longer time periods.


### What are core elements of your buy-and-sell discipline?

The overall strategy is annual, so we reconstitute the fund once per year. Annual reconstitution helps tax efficiency, which I think is underappreciated by most investors. Dividends are also currently taxed at a lower rate than capital gains, which also enhances the fund's tax efficiency.

Our goal is to hold all the names for a year. We will sell a name on a month-end basis if their dividend yields go below the hurdle rate. We will replace the company with the model's most attractive stock not already in the fund.

### What are your views on measurable and unmeasurable risks in the portfolio?

In our view, the great unmeasurable risk is a permanent loss of capital. But I would argue that if stock prices of many Dow Jones companies permanently go to zero, a long term investment strategy will be the least of our worries.

For us, measurable risk is the fund's volatility relative to the benchmark, which we monitor with a multifactor regression model. Equally weighting the fund's securities helps minimize this risk. Our Dogs of the Dow component favors large companies, which also helps minimize this risk. 

## SunAmerica Focused Dividend Strategy Portfolio

Symbols **FDSAX, FDSBX, FDSTX**  
 Website [www.sunamericafunds.com](http://www.sunamericafunds.com)  
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 Harborside Financial Center  
 3200 Plaza 5  
 Jersey City, NJ 07311-4992  
 Telephone 800-858-8850  
 Inception 06/08/1998

### PORTFOLIO

Total Net Assets*	\$135.4
Avg Mkt Cap (\$ Weighted)*	\$34,500
Average Price/Earnings Ratio	14.75x
Average Price/Book Ratio	5.34x
Turnover Ratio	57%

### INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$500
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$250

### RISK (AGAINST S&P 500 DAILY REINV INDEX - 3 YEARS)

Alpha	0.59
Beta	1.15
R-Squared	0.90
Ann Std Deviation	24.09
Sharpe Ratio	0.05

### RETURNS VS. S&P 500 DAILY REINV INDEX

	FDSAX	Index
1 Year (Cum.)	4.40%	3.23%
3 Year (Ann.)	0.64%	-3.60%
5 Year (Ann.)	3.39%	6.07%

### FEES AND EXPENSES

Max Sales Charge - Front**	5.75%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	0.95%

### PORTFOLIO MANAGER

Brendan Voegel	2006
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\* millions \*\* for amount invested less than \$50,000  
 09/30/2009; Source: Company Documents; Lipper

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