

As We See It

"The Dow is a historical touchpoint. It has a romance none of the others has."

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One hundred years ago the stock market was neither well organized nor followed. Consequently, it was not easy for those few, who actually cared, to discern the market's overall direction. It was in this environment that Charles H. Dow (a journalist who co-founded Dow Jones & Co. - publisher of *The Wall Street Journal*) felt compelled to devise the Dow Jones Industrial Average (DJIA) as a means of making sense out of the stock market for his readers.

The venerable DJIA made its debut on May 26, 1896. At that time, the index consisted of only twelve industrial stocks. The original twelve stocks were represented by the likes of General Electric Company, American Cotton Oil, American Tobacco, Distilling & Cattle Feeding Company, and Tennessee Coal, Iron & Railroad Company. The closing price for the average at the end of its first trading day was 40.94. In 1916, the original twelve-issue index was increased to twenty issues. Later in 1928, the index was again increased to its present-day number of thirty selected issues.

Only one of the original twelve components, General Electric Co., remains in the index today. However, its tenure has not been continuous. Historically, GE was removed and reinstated a couple of times during the late 1800's and early 1900's. The company finally became a permanent member of the index in 1907. Encouraging is the fact that only one of the original components of the index, U. S. Leather, actually failed as a business entity. That company, one of the nation's largest shoemakers during the first decades of this century, was dissolved in 1952. Several of the initial participants, through mergers and acquisitions, exist today as part of other corporations. Many of the other initial participants are essentially in the same business today as they were 100 years ago with only the name having changed. For example, American Tobacco became American Brands, Chicago Gas became Peoples Energy, Laclede Gas Light Co. became Laclede Gas Co., and National Lead became NL Industries.

In addition to the original twelve, eighty-two different companies, including the current thirty, have comprised the DJIA over the years. Changes in the Dow's components have been relatively infrequent in recent years. Only seventeen changes have taken place since 1940, the most recent of which occurred in 1991 when Caterpillar replaced Navistar, J. P. Morgan replaced Primarica, and Walt Disney replaced USX Corp. Occasional alterations in the index, under the control of the editors of *The Wall Street Journal*, have been needed to keep the index reflective of the economy.

While the Dow is the oldest and most widely followed of the stock market measures, it never was intended to be a precise measure of the market. Therefore, it has its critics. Some say the index has too few stocks, lacks the right stocks, and is calculated improperly. They cite the fact that other indices such as the Standard & Poor's 500 stock index or the New York Stock Exchange Composite have far more issues and, therefore, better track the stock market. Because of their broader representation, these and other indices are often used as a benchmark by professionals. Still, the DJIA is what everyone refers to when answering the question, "What happened to the market today?"

The most distinctive feature contrasting the Dow and other indices is the methods by which they are calculated. The Dow is a price-weighted index, as opposed to a market-capitalization-weighted index such as the Standard & Poor's 500 composite. This price-weighted feature means that the higher the price of a stock, the greater effect a percentage change in its price will have on the index compared to a similar change in a lower-priced stock. With the Standard & Poor's 500 and most other indices, the larger market-capitalization-weighted companies have more influence on the price of the index than the smaller companies.

The long history of the DJIA has become synonymous with the development and maturation of the stock market itself. Originating in a time when most common stocks were considered little more than scams, and enduring the Great Depression, numerous economic recessions, and bear markets, the DJIA has captured for Americans the resiliency that common stocks have demonstrated throughout the years. Through this popular measure, the average American became increasingly familiar with the virtues of the stock market. Eventually, common stocks became a respectable investment for their savings.

Despite its faults and critics, the Dow remains the most popular of the indices. As Peter R. Kahn, Chairman and C.E.O. of Dow Jones & Co. wrote in the May 28, 1996, issue of *The Wall Street Journal*, "Over the past century, the Dow Jones Industrial Average has been transformed from a newspaperman's instrument into a cultural icon. It is the daily symbol of the U. S. stock market, both on Wall Street and on Main Street – and on their equivalents in countries around the globe."

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