

Lesson 11

What is the Dow?

Resources: Internet access

Objectives: Learn about the most widely reported stock market indicator by the news media, the Dow or DJIA, short for Dow Jones Industrial Average.

Background: Charles Dow first introduced the 12-stock industrial average in 1896. Today, the DJIA consists of 30 blue-chip U.S. stocks. Each one serves as a bellwether for a particular sector of the industry. Together, the Dow is a good measure of the overall performance of the U.S. stock market. Below is a list of the 30 Dow stocks, their stock symbols, weighted percentage, and the link to each of their Web sites:

Company Name	Symbol	Weighted %
Alcoa Inc.	AA	3.138
Altria Group	MO	0.982
American Express Co.	AXP	6.510
American Int'l Group	AIG	2.498
Boeing Co.	BA	1.714
Caterpillar Inc.	CAT	1.877
Citigroup Inc.	C	2.553
Coca-Cola Co.	KO	2.330
DuPont Co.	DD	2.480
Exxon Mobil Corp.	XOM	3.809
General Electric Co.	GE	6.543
General Motors Corp.	GM	3.861
Home Depot Inc.	HD	2.804

Honeywell International Inc.	HON	2.250
Hewlett-Packard Co.	HWP	6.412
International Business Machines	IBM	5.218
Intel Corp.	INTC	5.885
J.P. Morgan Chase	JPM	5.766
Johnson & Johnson	JNJ	3.769
McDonald's Corp.	MCD	1.592
Merck & Co.	MRK	2.930
Microsoft Corp.	MSFT	4.672
Minnesota Mining & Manufacturing	MMM	4.042
Pfizer Inc.	PFE	1.785
Procter & Gamble Co.	PG	2.866
SBC Communications Inc.	SBC	2.082
United Technologies Corp.	UTX	2.688
Verizon Communications	VZ	2.700
Wal-Mart Stores Inc.	WMT	2.517
Walt Disney Co.	DIS	1.711

More than one hundred years old, the Dow has a historical significance unlike any other stock index. It has become a cultural icon that students can use to do historical research of the stock market. As the U.S. has changed from an economy of farmers and industrialists to a society where services and technology dominate, the Dow components have also changed over time. Today, only one, General Electric, remains in the Dow under its original name.

For some investors, the Dow is a tool in selecting stocks. One strategy is called “Dogs of the Dow.” For this method, at the beginning of the year, investors buy equal dollar amounts of the highest **dividend yield** Dow stocks. Then, investors hold these stocks for one year, selling all of them at the end of the year. This is a strategy known as buy low, sell high or a contrarian’s theory.

Another investment strategy is to buy stocks when Dow Jones & Co. announces that they will become the DJIA and sell when the addition actually takes place.

Some investors simply just buy all the 30 Dow industrial stocks as an index fund, trading in the American Stock Exchange named “Diamond” with a stock symbol “DIA.”

Here is more information about the Dow from **Value Line**.

Activities:

1. Matching: The Dow 30 represents a cross-section of major U.S. industries. Complete the following table that divides these 30 companies into different industry groups. Match the number of companies with the different groups. For example, there are only four companies in the technology sector and two in the telecommunications sector.

Industry	Company Name	Company Name	The Dow
Technology			Alcoa Inc.
	1	2	American Express Co.
			American Int'l Group
			Boeing Co.
			Caterpillar Inc.
Telecommunications			Citigroup Inc.
	1	2	Coca-Cola Co.
			DuPont Co.
Financial Services			Exxon Mobil Corp.
	1	2	General Electric Co.
	3	4	General Motors Corp.
			Home Depot Inc.
			Honeywell International Inc.
Manufacturing/heavy industry			Hewlett-Packard Co.
	1	2	International Business Machines Corp.
	3	4	Intel Corp.
	7	8	J.P. Morgan & Co.
	9	10	Johnson & Johnson

			McDonald's Corp.
			Merck & Co.
			Microsoft Corp.
Consumer products/services			Minnesota Mining & Manufacturing Co.
	1	2	Altria Group
	3	4	Pfizer Inc.
	5	6	Procter & Gamble Co.
	7	8	SBC Communications Inc.
	9	10	United Technologies Corp.
			Verizon Communications
			Wal-Mart Stores Inc.
			Walt Disney Co.

Answer

- The Dow has been up and down around 10,000 in most of 1999 and 2000 while the Nasdaq, powered by the technology stocks, doubled to pass 5,000.

What is the ratio of the Dow and Nasdaq now?
(The ratio of the Dow and Nasdaq used to be 4 to 1)

- Traditionally, all the Dow stocks are traded in the New York Stock Exchange, NYSE. In November 1999, the Dow added two Nasdaq stocks to reflect the change from the old to the new economy. Can students name those two companies?
- The Dow committee is planning to make substitutions again in the components to reflect the changing economy. Students should nominate three stocks to the Dow membership. Also, name three companies that should be replaced by the substitutions.
- The Standard and Poors 500 (S&P 500) index is often used as a benchmark to gauge the gains and losses of the stock market. Compare the gains or losses of the Dow with the S&P 500 benchmarks for the past one year. (Hint: the stock symbol for the Dow is DIA. If students need help, they can go back to Lesson 7 "What are the Indices of Investing?")
- One strategy is commonly known as "Dogs of the Dow," meaning buying the Dow companies with the highest dividend yields. Students should buy the Dow laggards at a low price and sell them after they rebound. Now, they should find the top five "Dogs of the Dow" stocks with the highest dividend yields.

	Company name	Symbol	Dividend Yield
1			

2		
3		
4		
5		

7. What does a great or bad day in the stock market feel like? Use the Dow's home page to complete the following tables.

The five worst days of the Dow (Also know as a market crash)		
Date	Point Loss	% Loss
1		
2		
3		
4		
5		
The five biggest percent gains in the Dow		
Date	% Gain	
1		
2		
3		
4		
5		

Additional activities: For students who like to explore the past one hundred plus years of the nation's economy and the stock market, they can visit the Dow Jones Industrial Average's home page and learn more about facts and figures of the Dow