



## ***Mondays with Mallen—Edition 5***

### **What exactly is the DOW?**

Many investors use the DOW as the indicator of market performance without knowing what truly makes up the DOW. There are no set rules for inclusion in the DOW. The editors of *The Wall Street Journal* decide which companies are included in the DOW using a set of broad guidelines that identify large, respected, substantial enterprises that represent a significant portion of the economic activity in the United States.

While the DOW is certainly something we monitor closely, it is important to remember that the DOW is made up of only **30** companies. Additionally, the DOW is what we call “price-weighted,” meaning that the more expensive stocks in the DOW have more of an impact on the DOW’s performance. Other indexes are “capitalization” weighted, meaning the largest companies have the most effect on the performance and this is generally a more accurate method to calculate market performance. We say all of that to note that the DOW is certainly a relevant indicator but is not a sufficient indicator when evaluated in isolation.

### **Why was GE removed?**

GE was removed from the DOW due to its poor performance. GE is down about 55 percent over the past year. The DOW, in theory, is supposed to represent the performance of large US companies which were up an average of 13% over the last year. Needless to say, a loss of 55% no longer represents the US large-cap market.

Furthermore, GE share price is down to \$13. Now go back to the “price-weighted” concept we mentioned earlier. At this low price, GE is hardly even affecting the DOW representing less than 1% of the index. GE’s replacement, Walgreen’s, has an approximate share price of \$68 which will be better represented in the index.

### **How does this affect me?**

We all constantly hear about the DOW being up or down and reaching highs or lows, but it’s a concept we rarely dissect. We monitor hundreds of benchmarks to assess the current state of the market at any given time; however, we know that it is important to

stay disciplined in our long-term investment approach. Chasing benchmarks or trading on “news” typically leaves investors missing the mark. The DOW is one indicator of market performance and is something to be monitored but not something that will not exclusively dictate our investment decisions.

*Sincerely,*

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