

The Dow is Up, the Dow is Down ... What is the Dow?

In 1884, Charles Henry Dow averaged the closing prices of 11 stocks he considered representative of the strength of the U.S. economy in a paper that preceded *The Wall Street Journal*. By 1896, *The Wall Street Journal* was publishing this average on a regular basis, and the most famous indicator of stock market performance was born: the Dow Jones Industrial Average (DJIA). Today there are hundreds of market indexes.

Most people have heard of the Dow, as well as a few other well-known stock indexes that track the overall direction of the market. Indexes and averages serve as useful benchmarks against which investors can measure the performance of their own portfolios.

Basically, indexes are imaginary portfolios of securities that represent a particular market or section of the market. Today, new investment options are available that track market indexes and allow you to invest in them.

All the stocks in an index have at least one element in common. They might trade on the same stock market exchange, belong to the same industry, or have similar market capitalizations. Some of the more widely known indexes are the Dow, the S&P 500, the Wilshire 5000, and the Russell 2000.

The Dow Jones Industrial Average - The Dow is an index of widely held “blue-chip” stocks that is used as an indicator of the performance of U.S. industrial stocks. Unlike most other major indexes, the stocks in the Dow are un-weighted by market capitalization. The 30 stocks included in the Dow are all major factors in their industries. Many have become household names: 3M, Boeing, Coca-Cola, General Electric, IBM, Intel, Johnson & Johnson, United Technology, Procter & Gamble, and Wal-Mart.

S&P 500 - The Standard & Poor’s (S&P) 500 is an index of 500 of the most widely held stocks — leading companies from all sectors of the economy — chosen for their market size, liquidity, and industry group representation. Because some stocks influence the market more than others, each stock is given a different weight when the calculations are made. This is called “market-capitalization weighting,” which is the type of weighting used for the Nasdaq Composite, the Wilshire 5000, and the Russell 2000. Over 70% of all U.S. equity is tracked by the S&P 500.

Wilshire 5000 - Probably the most broadly based market index is the Wilshire 5000 Total Market Index. The Wilshire 5000 now includes the stocks of more than 6,700 publicly traded companies. This index tracks the overall performance of stocks actively traded on the American stock exchanges; the companies are all headquartered in the United States.

Russell 2000 - Started in 1972, the Russell 2000 Index gauges the performance of 2,000 “small cap” stocks that are often omitted from large indexes. This index serves as a benchmark for small-cap U.S. stocks and is useful for tracking small companies with growth potential.

If your portfolio lags substantially behind a corresponding index, it may be time to reevaluate and reallocate assets. Be sure to select an appropriate index as your benchmark. For example, comparing a small-cap stock portfolio to the Dow Jones Industrial Average may not be very meaningful; comparing it to the Russell 2000 Index would be more appropriate. If you would like to get a second opinion on the performance of your portfolio, please call our office for a complimentary consultation.

Sydney Riccio is a Coto resident, a financial advisor with Cooper McManus, a Representative with Securities America, a registered Broker/Dealer, member FINRA/SIPC, and a certified college funding advisor. For more information, contact (800) 516-5333 x 121 or www.SydneyRiccio.com. CA Insurance License 0E01624. Advisory services offered through Cooper McManus, Inc., a SEC Registered Investment Advisory firm. Securities offered through Securities America, Inc. Cooper McManus and Securities America are unaffiliated.