

I've been on Twitter (TWTR) quite a few times railing against the Dow Jones Industrial Average and its price-weighted calculation. And, of course, I am not alone. This index presents a distorted view of any given day's events although most of the time its foibles are hidden in the performance of the rest of the market. Let's look at today, September 11, 2019. I am writing at about 2:30 in the afternoon and the Dow itself is up roughly 137 points on the day. All of that gain, and I mean all of it (within my writer's margin of error) is attributable to three stocks and number three in that group is good for only 10 points. That means for all practical purposes, only two stocks are responsible for the Dow's gain. All the others more or less cancel each other out.

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Right now, Boeing (BA) is up 3.4%. That's a pretty substantial gain but since the stock carries such a high dollar price (381), that percentage yields a 12 point (rounded) gain. And that 12 points translate, through the magic of the Dow's divisor, into 83 points for the DJIA, itself. Boeing alone is responsible for the 83 of the Dow's 127-point gain at this hour. Apple (AAPL), fresh on the heels of its big tech reveal (no thanks, I do not need a phone with three camera lenses) is up 2.5% or 6 points. That's 38 Dow points. And for those of you keeping score, the third stock was Caterpillar (CAT), up 1.2% for 10 Dow points. Why is this? Because the Dow is calculated by adding up all the changes on the day for the 30 stocks within and then dividing by some engineered number that is less than one. That means a one-point move in any stock, regardless of the stock's actual price, results in a greater than one point move in the Dow itself. Now, on days when the high-priced stocks such as Boeing, Apple, and Caterpillar have very small changes, the Dow Industrials will be in step with the other major market indices. But there are times, lots of times when the Dow will be higher on the day and every other major is lower. Of course, the media will report that the market was up because they focus on the Dow. It does not matter (most of the time) that everything else was lower. Sure, you might hear a more advanced talking head say the market was mixed but that is an easy cop-out. Here's a recent tweet of mine - \$BA responsible for 102 of the Dow's 98-point gain. Why? Because most everything else was lower or flat. Lunacy!



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A one-point change in UnitedHealth (UNH) is treated the same as a one-point move in Pfizer (PFE). At a price of 233, United's one-point is good for 0.4%. • That's just noise. Meanwhile, a one-point move in Pfizer at 37 is 2.7%. Which stock had a more important day? You know. **Fun with Fractions** And then comes the real fun. Every time they change the Dow, they have to change the divisor to keep the continuity of the historical price record. And every time a Dow stock splits, they have to do it again. With each change, the divisor seems to get smaller and smaller and anyone who knows math just a little knows that the smaller the divisor (the bottom of the fraction) gets, the larger the value of the result gets. By all means, track the Dow. It's not always misleading and I personally more quickly absorb the level of the overall market and change on the day when I look at it, warts and all. However, if you want to really know what happened in the market, you need to look at a bunch of diverse indices, such as the Nasdaq, Russell and S&P 500. Toss in a few sector indices or ETFs, too. The cheese may stand alone* but the Dow really cannot.

* *Hi-ho, the derry-o, the cheese stands alone.*