

130 30 Investing Comments

Changes to the Dow 30 Index Highlight Transition To Consumer Driven Service Economy

This week Dow Jones will make significant changes to the Dow 30 Index, removing 3 companies (**Alcoa**, **Bank of America** and **Hewlett-Packard**) effective at the close of trading on September 20, 2013, to replace them with 3 other companies with higher stock prices (**Goldman Sachs Group**, **Nike** and **Visa**).

This change to the Dow 30 Index list is likely to cause greater index price fluctuation on a daily basis, as 2 of the companies to be added (**Goldman Sachs Group** and **Visa**) are trading at close to \$170 per share and \$200 per share. Consider that a 1% trading change on a \$200 stock is \$2.00 per share, whereas a 1% trading change on an \$8 stock such as **Alcoa** (to be removed) is only \$0.08 per share. As the Dow 30 Index is a price weighted index, each stock price is added during daily trading to contribute to calculation of the Dow 30 Index total. While these changes are unlikely to cause gap price action, either for the Dow 30 Index or for the stocks to be added, they will certainly mean lower trading volume for the stocks to be dropped.

Goldman Sachs Group will now be the second bank in the Dow 30 Index, along with **JP Morgan Chase**. **Visa** will be in the company of **American Express** as consumer credit card companies within the Dow 30 Index. As for **Nike**, there are no other apparel companies in the Dow 30 Index, although consumer non-durables are well represented with **Coca-Cola**, **Kraft Foods**, **McDonald's**, **Procter & Gamble**, **Wal-Mart Stores** and **Walt Disney**.

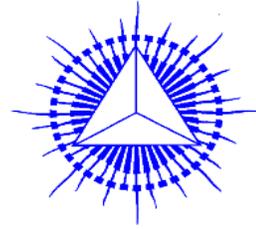
Dow Jones says the changes are intended to add more technology to the Dow 30 Index, but that statement appears less convincing with the removal of **Hewlett-Packard**. Technology stocks remaining within the Dow 30 Index include **Cisco Systems**, **IBM**, **Intel** and **Microsoft**. Analysts now seem united in their view that all 5 of these Dow 30 Index technology stocks have seen disappointments in the last year.

It seems safe to say that changes to the Dow 30 Index have attempted to maintain stability. Those stocks that are dropped almost always are in the midst of major restructuring of operations. Changes to the Dow 30 Index also reflect declining importance of the industrial sector, as a consumer driven economy emerges with the support of the service sector.

Dow Jones thoughtfully provided a list of previous index changes, going back to 1988, now 25 years ago. Of the 30 companies included in the Dow Jones Index in 1988, only 13 remain in the Dow 30 Index today. Gone are the stocks of such industrial companies as **Allied Signal**, **Bethlehem Steel**, **Goodyear**, **International Paper**, **Navistar International**, **Texaco**, **Union Carbide**, **USX** and **Westinghouse**. Most of those companies merged or restructured, with significant pieces of former operations now controlled by foreign investors. **Westinghouse** is an interesting case to ponder. Sponsor of countless inventions and innovations that contributed to the growth of the US economy, in 1995 **Westinghouse** merged with and changed its name to **CBS**, later to merge with another media company, **Viacom**. Nuclear energy business was sold to British Nuclear Fuels Limited, then later to **Toshiba**, now owner of 87% of **Westinghouse**.

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Some of the companies dropped by the Dow Jones 30 Index went bankrupt: **Bethlehem Steel** in 2001, **General Motors** in 2009 and **Eastman Kodak** in 2012. Remember **Woolworth**, the Main Street retailer? **Woolworth** was replaced by **Wal-Mart** in the Dow 30 Index in 1991. **Woolworth** changed its name to **Venator** in 1997, after closing almost all traditional retail locations. Today, what is left of **Woolworth** is **Foot Locker**, selling athletic shoes and apparel at your local mall.

What would we like to see in the Dow 30 Index? How about a play on cell phones and mobile Internet? Consider the impact of cell phone technology on the world's largest microprocessor company, **Intel** and more visibly recently, on **Microsoft**. What about adding **Google** or **Apple**, if they would consent to split their share prices? There is a cell phone play already. **Verizon** is included in the Dow 30 Index, and soon to be owner of 100% of Verizon Wireless. Cell phones and tablets represent the kind of technology that makes sense to consumers today.

The Dow 30 Index reflects the shape of the US economy through successful companies that dominate their markets. Investors should know that investing in the US stock market really means participating in the global economy. The reality is that much of our steel comes from Japan, most of our appliances, computers and cell phones are made in Taiwan and in Korea, and our cars are only assembled in the US. Almost all of what we buy at **Wal-Mart** is manufactured in China, India and South America. As for our greatest consumer brands, using **Coca-Cola** and **McDonald's** as examples, more than 70% of corporate income comes from international markets.

We should view the Dow 30 Index stocks as leaders of today, but not necessarily of where we will be investing tomorrow.

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