

BIRTH OF THE DOW

By Charles Apple | THE SPOKESMAN-REVIEW

One hundred and thirty years ago, Wall Street Journal founder and editor Charles Dow and his associate, journalist and statistician Edward Jones, launched a new way of measuring the ups and downs of the stock market. Their Dow Jones Industrial Average index would give investors — as well as newspaper readers around the country — insight into the behavior of Wall Street.



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AN INDEX TO MEASURE CHANGES IN THE STOCK MARKET

Charles Dow spent the 1870s reporting on regional history for various newspapers in his native New England. Over time, he discovered he had a knack for business writing. He moved to New York City in 1880 to work for a financial news bureau and met Edward Davis Jones, another talented financial writer. In 1882, they left to found their own news agency, which they called Dow, Jones & Company.

In 1883, Dow and Jones began putting out a small daily newsletter summing up the day's developments on Wall Street. Their newsletter took off, with more than 1,000 subscribers and was highly regarded by stock traders and executives. By 1889, Dow and Jones expanded their newsletter into a full-fledged newspaper, naming it the Wall Street Journal.

Dow had begun tinkering with stock price averages and indexes as early as 1884. His first index — what he called the Dow Jones Transportation Average — consisted of nine railroad stocks plus Pacific Mail Steamship and Western Union Telegraph.

HOW THE DOW WORKS

The index is weighted so that companies with higher market capitalization — in other words, the total value of all the outstanding stock of those companies — play a larger role in making up the index number at any given time. Companies with a smaller market cap have less impact on the overall index number.

While share prices affect the index — which is pretty much the point of the Dow — the index number itself doesn't represent any sort of dollar figure. Like any index, it's really only meant to be used to compare to the number from some other point in time — typically the previous day or week or year.

The big flaw in the Dow, experts point out: Only 30 companies — out of more than 5,300 stocks that are traded — make up the index. That's just .006% and hardly enough to present a diverse picture of all the moving parts in the daily stock market. Those critics feel like the S&P 500 — which uses 500 companies to determine an index number — to be a better gauge of what's happening on Wall Street.

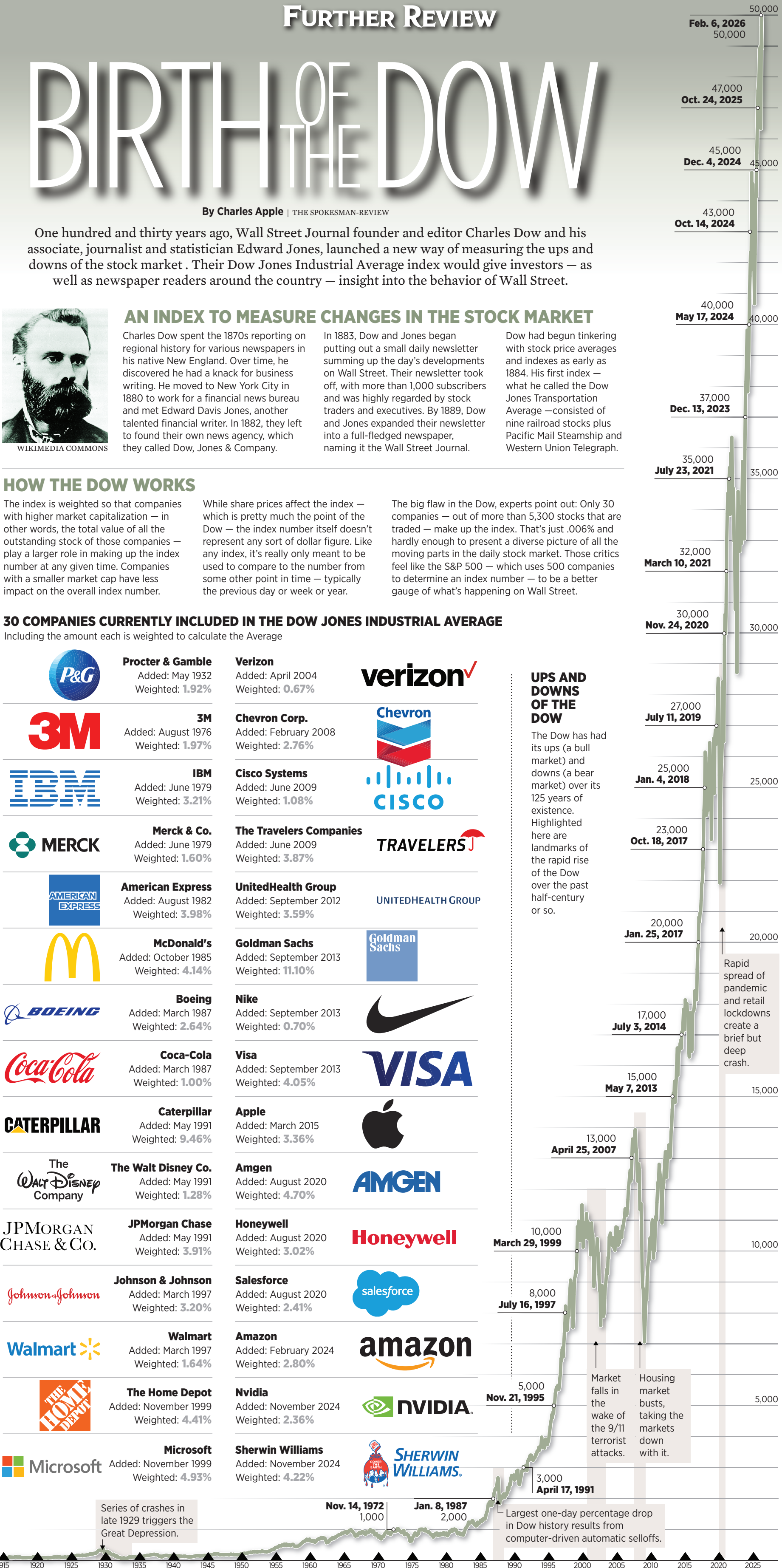
30 COMPANIES CURRENTLY INCLUDED IN THE DOW JONES INDUSTRIAL AVERAGE

Including the amount each is weighted to calculate the Average

	Procter & Gamble Added: May 1932 Weighted: 1.92%		Verizon Added: April 2004 Weighted: 0.67%
	3M Added: August 1976 Weighted: 1.97%		Chevron Corp. Added: February 2008 Weighted: 2.76%
	IBM Added: June 1979 Weighted: 3.21%		Cisco Systems Added: June 2009 Weighted: 1.08%
	Merck & Co. Added: June 1979 Weighted: 1.60%		The Travelers Companies Added: June 2009 Weighted: 3.87%
	American Express Added: August 1982 Weighted: 3.98%		UnitedHealth Group Added: September 2012 Weighted: 3.59%
	McDonald's Added: October 1985 Weighted: 4.14%		Goldman Sachs Added: September 2013 Weighted: 11.10%
	Boeing Added: March 1987 Weighted: 2.64%		Nike Added: September 2013 Weighted: 0.70%
	Coca-Cola Added: March 1987 Weighted: 1.00%		Visa Added: September 2013 Weighted: 4.05%
	Caterpillar Added: May 1991 Weighted: 9.46%		Apple Added: March 2015 Weighted: 3.36%
	The Walt Disney Co. Added: May 1991 Weighted: 1.28%		Amgen Added: August 2020 Weighted: 4.70%
	JPMorgan Chase Added: May 1991 Weighted: 3.91%		Honeywell Added: August 2020 Weighted: 3.02%
	Johnson & Johnson Added: March 1997 Weighted: 3.20%		Salesforce Added: August 2020 Weighted: 2.41%
	Walmart Added: March 1997 Weighted: 1.64%		Amazon Added: February 2024 Weighted: 2.80%
	The Home Depot Added: November 1999 Weighted: 4.41%		Nvidia Added: November 2024 Weighted: 2.36%
	Microsoft Added: November 1999 Weighted: 4.93%		Sherwin Williams Added: November 2024 Weighted: 4.22%

UPS AND DOWNS OF THE DOW

The Dow has had its ups (a bull market) and downs (a bear market) over its 125 years of existence. Highlighted here are landmarks of the rapid rise of the Dow over the past half-century or so.



Series of crashes in late 1929 triggers the Great Depression.

Nov. 14, 1972 1,000

Jan. 8, 1987 2,000

April 17, 1991
Largest one-day percentage drop in Dow history results from computer-driven automatic selloffs.

Nov. 21, 1995
Market falls in the wake of the 9/11 terrorist attacks.

April 25, 2007
Housing market busts, taking the markets down with it.

Rapid spread of pandemic and retail lockdowns create a brief but deep crash.

Sources: Investopedia.com, the Wall Street Journal, the New York Times, the Library of Congress, DJAverages.com, Benzinga.com, S&P Dow Jones Indices, Corporate Finance Institute, TheBalance.com, BusinessNewsDaily.com