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A smart fifth-grader could compute the Dow



EMMANUEL DUNAND/AFP/Getty Images

A news photographer takes a picture of an electronic board indicating the record-breaking Dow Jones Industrial (INDP) at the end of trade at the New York Stock Exchange in New York, March 5, 2013.

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by Adriene Hill

Marketplace for Wednesday, March 6, 2013

STORY

Dow hits new high, erasing crisis swoon

Dow record makes those not in the market itchy to act

We were met at the closing bell this afternoon by yet another record high on the Dow Jones Industrial Average. Which might [make you feel pretty good](#) about things. But maybe it shouldn't.

"It's a rough indicator of the health of the market," says Kelly School of Business professor Scott Smart, "but there are some problems with the Dow as such an indicator."

For one, the Dow is a very, very small sample. It's 30 companies. And says Smart, "since it only looks at 30 stocks, there are obviously big portions of the market that the Dow doesn't monitor or doesn't capture." Google isn't there. Apple isn't there. (I could keep this game going for a long time.)

Campbell Harvey from Duke has another reason you might want to do a little less Dow-gazing, "it is weighted in a very unusual way." Unlike other indices, where the weight is the stock price times the number of outstanding shares, or the market cap, with the Dow, says

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Harvey, "the weight for each stock is essentially the stock price."

To calculate the Dow, you pretty much need 4th grade math.

David Blitzer from S&P Dow Jones Indices explains, "You take the price of each stock and add up those 30 numbers." And then you divide them by a divisor that's right around 0.13. (When they replace a company on the Dow, they change the divisor to keep the Dow stable.)

And then you are done.

That's the Dow. No complicated formula. No algorithms. No wonder more serious investors prefer the S&P 500 -- which is up, but not yet setting new records.

BONUS AUDIO: Adriene continues the conversation with the S&P's David Blitzer – more on how they calculate the index. Plus, have you heard any good Dow or NASDAQ jokes lately?

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About the author

Adriene Hill is a multimedia reporter for the Marketplace sustainability desk, with a focus on consumer issues and the individual relationship to sustainability and the environment.

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cecilwatkins - Mar 7, 2013

I agree with the others. In the pre-index fund days, maybe reporting the DJIA made more sense because it was going to be closer to what most people invested in. Nowadays it's meaningless because most people are in mutual funds that track closer to very different indices. Marketplace should at least be reporting the S&P 500 before the DJIA when it does the numbers. It would be even better to throw a total-market index in there, but I'll take one positive step at a time.

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merrill77 - Mar 7, 2013

So, Kai, why do you keep talking about the Dow? 25 years ago, when my education on finance and investing started, it was quite obvious that the Dow was a worthless index, best ignored. In fact, that's usually when I turn off your show...when you talk about the Dow. Now that you've come to the same conclusion, how about putting your money where your mouth is...and stop reporting the Dow? It would be the more responsible choice.

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drmfergus - Mar 7, 2013

Journalistic excellence notwithstanding, Adriene Hill should be charged with battery for the opening salvo to this segment.

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wludson2012 - Mar 6, 2013

Adriene,
thanks so much for this bright spot of sanity in the otherwise dreary Kai World of Non Sequiturs and HypoJournalism
i just hope you cleared your piece with him first, as he has made a career of cheerfully mouthing the vast importance of the Dow of corporate america as breathlessly as an "bubbleheaded blonde" of TV broadcast fame could ever do.
sure would miss having an intelligent report every so often on this show
but then again, no one has yet been able to prove that this isn't the height of NPR campy productions, aching out Wait, Wait... for unintentional hilarity
regards, wlh

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