



Dow Jones Industrial Average Explained

The Dow Jones Industrial Average (DJIA) is often used by the media as a barometer for the U.S. equity markets and economy. The index is the second oldest for U.S. equities, dating back to 1896, and is made up of 30 of the largest and most well-known U.S. public companies. Recently, there were a number of announced changes to the composition of the DJIA, which made headlines. These changes were precipitated by Apple's announcement of a 4-for-1 stock split, which occurred on Monday. This affected the index significantly, as the DJIA is price weighted, meaning companies with a higher stock price have a higher weighting. Alternatively, indices such as the S&P 500 and NASDAQ are market-cap weighted, which means that larger companies have a higher weighting.

Since the DJIA is a price-weighted index and not market cap weighted, the stock split reduces Apple's weighting in the index. Prior to the split, Apple was the largest weight in the index, but after the split, it became the 17th largest weight based on current stock prices. In conjunction with Apple's announcement, the DJIA index committee decided to remove Raytheon Technologies, Pfizer and ExxonMobil from the index in favor of Honeywell, Amgen, and Salesforce. Since Apple, and thus the Technology weighting, would be reduced via the split, Salesforce was added to the index. ExxonMobil, which was the longest-tenured company in the index prior to the recent changes, was removed, as the Energy sector's importance to the market and economy has declined.

The DJIA is overseen and maintained by a committee that is made up of three representatives from the S&P Dow Jones Indices and two representatives of The Wall Street Journal. The selection of companies for the DJIA is not based on quantitative rules but by qualitative information determined by the committee. While committee meetings and decisions are confidential, they have publically released their broad selection criteria. Included companies must: help achieve sector balance of the index, demonstrate sustained growth, have wide investor interest, have an excellent reputation and they must be a blue chip company. To be eligible for the index, the company must also be in the S&P 500, but not in the transportation nor utilities sector, be headquartered in the U.S. and have a majority of its revenues from the United States. Changes to the composition are on an as-needed basis when corporate actions and market developments dictate that a change is appropriate.

The changes to the DJIA components have a limited effect on investors. While the media likes to quote the price movements of the Dow Jones Industrial Average, there is not a lot of capital tied to the index. This is because most passive investors favor market-cap weighted indices that are more diversified than the DJIA such as the S&P 500 or Russell indices. However, the changes are of interest as a reflection of the current trends in the U.S. equity market and economy. The chart below shows the current DJIA components and the recent changes.

Company	Symbol	Year Added	Price	Weight as of 8/25	Weight as of 8/31
UnitedHealth Group	UNH	2012	\$ 312.22	7.6%	7.2%
The Home Depot	HD	1999	\$ 286.13	6.9%	6.6%
Salesforce	CRM	2020	\$ 216.05	0.0%	6.3%
Amgen	AMGN	2020	\$ 248.22	0.0%	5.9%
Microsoft	MSFT	1999	\$ 216.47	5.3%	5.2%
McDonald's	MCD	1985	\$ 212.65	5.2%	4.9%
Visa	V	2013	\$ 208.10	5.1%	4.9%
Goldman Sachs	GS	2013	\$ 206.00	5.0%	4.7%
Boeing	BA	1987	\$ 174.73	4.2%	4.0%
Honeywell	HON	2020	\$ 164.53	0.0%	3.8%
3M	MMM	1976	\$ 163.10	4.0%	3.8%
Johnson & Johnson	JNJ	1997	\$ 152.06	3.7%	3.5%
Caterpillar	CAT	1991	\$ 141.15	3.4%	3.3%
Walmart	WMT	1997	\$ 130.63	3.2%	3.2%
Proctor & Gamble	PG	1932	\$ 139.06	3.4%	3.2%
The Walt Disney Company	DIS	1991	\$ 129.79	3.2%	3.0%
Apple Inc.	AAPL	2015	\$ 499.30	12.1%	3.0%
IBM	IBM	1979	\$ 124.64	3.0%	2.8%
The Travelers Companies	TRV	2009	\$ 115.62	2.8%	2.7%
NIKE	NKE	2013	\$ 111.51	2.7%	2.6%
American Express	AXP	1982	\$ 99.05	2.4%	2.3%
JPMorgan Chase	JPM	1991	\$ 100.50	2.4%	2.3%
Merck & Co.	MRK	1979	\$ 85.68	2.1%	2.0%
Chevron	CVX	2008	\$ 86.13	2.1%	1.9%
Verizon	VZ	2004	\$ 59.42	1.4%	1.4%
Intel	INTC	1999	\$ 49.43	1.2%	1.2%
The Coca-Cola Company	KO	1987	\$ 47.91	1.2%	1.1%
Dow Inc.	DOW	2019	\$ 45.59	1.1%	1.0%
Cisco Systems	CSCO	2009	\$ 41.96	1.0%	1.0%
Walgreens Boots Alliance	WBA	2018	\$ 39.50	1.0%	0.9%
Raytheon Technologies Corp	RTX	1939	\$ 60.95	1.5%	0.0%
Exxon Mobil Corp	XOM	1928	\$ 40.88	1.0%	0.0%
Pfizer Inc	PFE	2004	\$ 38.41	0.9%	0.0%

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