How useful is the Dow?

The Dow Jones industrial Average – the Dow – is a well-known part of the investment market, often quoted by news sources. But what does it mean, and is it useful when making investment decisions?

The Dow was created in 1896, and is arguably still used today mainly thanks to history or habit.

There are several issues with the Dow, such as:

- The index only tracks 30 shares.
- It has a large absolute value – around 25,000 – which means movements sound bigger than they are. ‘Dow falls 500 points’ has more impact than, ‘Dow falls 2%’, even if the two measures are identical.
- A committee chooses which shares the Dow tracks – where most main indices choose their constituents by market capitalisation – so it has some surprising absences, such as Alphabet (Google’s holding company) and Facebook.
- Almost uniquely, the Dow is weighted by share price rather than company stock market value, which has some strange effects. Because a high share price means a larger weighting, Boeing (with a share price around $320) has nearly double the weight of Apple (with a share price around $170), even though Apple is the largest US company and over four times the size of Boeing.

When China recently announced proposed tariffs on imported aircraft aimed at Boeing, this had a disproportionate effect on the Dow, as Boeing shares (over 9% of the Index) fell.

Investment professionals prefer the S&P 500 Index, which is capitalisation-weighted and, as the name suggests, covers the top 500 companies in the US. The largest funds tracking the US market follow the S&P 500, not the Dow.

Despite its flaws, the Dow’s prominence is a reminder that the daily noise of markets is not always what it seems, and underlines why expert advice is essential when choosing *and monitoring* your investments.