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June/July 2006

Darien

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**Good Neighbor,
Beth Monaco Orr**

**Darien City News
Darien Chamber of Commerce News**

Basing investment decisions on DJIA can be a problem

Don't make financial decisions based on the Dow Jones Industrial Average.

The Dow Jones Industrial Average is arguably the most widely quoted index that exists today. Everyday we're reminded of the daily activity, either positive or negative. Some investors, unfortunately base their investment decisions on its performance. That's a mistake. Let me explain.

The DJIA is composed of 30 companies; from Alcoa to Wal-Mart and each member represent a primary industry of the U.S. economy. The members change over time to reflect the interests of consumers and advances in technology.

The index dates back to May 26, 1896 when Charles H. Dow first introduced it to the world and it consisted of only 12 industrial

companies. Later in 1928, it was expanded to include 30 companies where it remains today.

The DJIA is a price-weighted index. Put simply, it is the method used to calculate the final number you and I see every trading day. This means that the higher-priced stocks influence or sway the index more than the lower-priced stocks. The higher the stock price, the more pressure the company has on the daily movement. The exact opposite is true. The lower the stock price, the less of an impact the company has, even though the company may be significantly larger than other higher-priced companies.

At the time of this writing, the NYSE has approximately 3,420 companies listed. As a result, the DJIA represents less than 1% of the total companies on the exchange. Question: If you had a 1% chance of

achieving any goal, how confident would you be? Your odds are minimal at best. So why would you base an investment decision on the performance of this index?

Final Point: The DJIA alone doesn't provide investors enough information about the broader market of stocks you should consider when making any investment decision. Secondly, it does not consider each company equally and is therefore imprecise and does not necessarily reflect the true condition of the general market. So the next time someone quotes the daily activity of the DJIA, ask them how the other 3,390 companies did.

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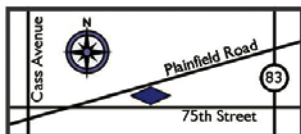
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