



The DJIA Gets a Major Shakeup on August 31st

Three of the 30 companies are changing, including its oldest member

Newspapers, radio, and TV news programs refer to the Dow Jones Industrial Average every day, calling it the Dow, the Dow Jones or even the DJIA.

Economists, financial planners and investors pay close attention to its daily changes and longer trends.

Well, on August 31, 2020, prior to the opening of trading, oil giant Exxon Mobil, pharmaceutical behemoth Pfizer and defense contractor Raytheon Technologies are out of the DJIA while cloud-software seller Salesforce, biopharmaceutical company Amgen and manufacturing giant Honeywell are in.

But what exactly is the Dow Jones Industrial Average and why does it matter?

History

The Dow Jones Industrial Average is a stock market index, used to assess movements in the market and its overall strength or weakness. It was created in 1896 by Wall Street Journal editor and co-founder of Dow Jones & Company, Charles Dow. Dow Jones & Company owns the Wall Street Journal.

The DJIA tracks the market performance of 30 American companies, but initially it had only 12 stocks and included such golden oldies as American Cotton Oil Company, U.S. Leather Company, and Distilling & Cattle Feeding Company. In 1920, the Dow expanded to 20 stocks and then to 30 stocks in 1929.

Due to its age, the Dow Jones Industrial Average represents a continuous chart of our nation's economic growth, along with its ups and downs:

- The Dow first hit 1,000 in late 1972;
- Crossed 10,000 in March 1999;
- Reached 20,000 in January 2017; and
- On February 12, 2020, the DJIA closed at an all-time high of 29,551.42.

As of the end of August 2020, it was hovering about 1,000 points below that all-time high.

Comparison to Other Market Indexes

The DJIA is one of the big kids on the index block. It is a blue-chip index, meaning that it is comprised only of publicly traded companies that are well-established, financially stable, and very large.

Some market observers argue that broader indexes like the S&P 500 or the Wilshire 5000 are a better way to measure the status of the stock market. Because the Dow has only 30 stocks, they argue, it does poorly in showing the total scope of the market. However, others note that the stocks in the Dow tend to perform similar to the market as a whole because the companies are large and the stocks are frequently traded.

Changes to the Dow

While the Dow has always contained the heavyweights, the exact composition of the Dow has changed at various times over the last 120 years, even though most individual stocks stay in the Dow for years.

As the economy moved from heavy industry to consumer goods to technology, the Dow's membership has changed to reflect the market. But when one company enters the Dow, another has to leave.

General Electric was the last of the 12 originals remaining in the Dow Jones Industrial Average. Although it was removed from the Dow for 6 months in the 1890s and from 1901-1907, GE had been a continuous member of the Dow since 1907. But in June 2018, the stewards of the DJIA announced that GE would be replaced by Walgreens.

That left Exxon Mobil, a member since 1928, as the oldest member of the Dow. But on August 31, 2020, prior to the opening of trading, Exxon Mobil, Pfizer and Raytheon Technologies are out of the Dow and Salesforce, Amgen and Honeywell are in.

The move was made to "diversify the index by removing overlap between companies of similar scope and adding new types of businesses that better reflect the American economy."

Current Members of the Dow

So, who decides which companies are allowed into the club of 30 companies used for the Dow Jones Industrial Average Index? Surprisingly, newspaper editors!

Dow Jones owns the Wall Street Journal, where Charles Dow was once the editor. As a result, the editorial board of the Wall Street Journal decides who gets into the Dow 30 and who leaves. These changes do not happen very often, however.

The current membership of the DJIA is as follows:

Company	Symbol	Year Added
3M	MMM	1976
American Express	AXP	1982
Amgen	AMGN	2020
Apple Inc.	AAPL	2015
Boeing	BA	1987
Caterpillar	CAT	1991
Chevron	CVX	2008
Cisco Systems	CSCO	2009
The Coca-Cola Company	KO	1987
Dow Inc.	DOW	2019
Goldman Sachs	GS	2013
The Home Depot	HD	1999
Honeywell	HON	2020
IBM	IBM	1979
Intel	INTC	1999
Johnson & Johnson	JNJ	1997
JPMorgan Chase	JPM	1991
McDonald's	MCD	1985
Merck & Co.	MRK	1979
Microsoft	MSFT	1999
NIKE	NKE	2013
Proctor & Gamble	PG	1932
Salesforce	CRM	2020
The Travelers Companies	TRV	2009
UnitedHealth Group	UNH	2012
Verizon	VZ	2004
Visa	V	2013
Walmart	WMT	1997
Walgreens Boots Alliance	WBA	2018

No matter what you think of the Dow or its components it is a useful index in many ways, as are the other market indexes. And that is why most financial planners will recommend that you measure your success by tracking several different indexes on a monthly, quarterly, yearly and multi-year basis.