

Ask the Advisor

“What does the record high (of the DOW Jones Industrial Average) mean for me?”



Monica in Salem

The record high means little in the short term -- but everything in the long term.

The DOW Jones Industrial Average (DJIA) is an index comprised of thirty industry-leading stocks and it is the most quoted representation of the stock market.

The DJIA was created in 1896, originally consisted of 12 companies, and closed its first day of trading at 40.94. It closed October 3, 2006 at a new high of 11,727.34.

Over the years the companies that comprise the DJIA have come and gone, with one notable exception, General Electric, the only original member of the DJIA still present.

The industries comprising the DJIA have also changed. Gone are cattle and leather, added are transportation and technology, among others.

The true value of the DJIA in representing the general stock market is often debated.

Broader representations,

the S&P 500 and the Wilshire 5000 just to name two, have become more widely accepted as better reflections of the stock market.

However, there's no denying the value of the DJIA's unequaled long history; its 110 year span is unmatched by any other index and there perhaps lies its greatest value.

Remember that closing value of 40.94, 110 years ago? Since then the DJIA has weathered World War I, the crash of 1929, World War II, Korea, the Kennedy assassination, social unrest, Vietnam, Watergate, the seventy's oil crises, the Cold War, Y2K, September 11th, Hurricane Katrina, skyrocketing oil prices, Iraq and untold other challenges, yet here we are once again at a new record high.

Sure there have been temporary setbacks and even extended down periods, but over the long term, the market just keeps on climbing! In fact, the DJIA broke through 500 in

1956, 1,000 in 1972, 4,000 in 1995, 10,000 in 1999 and 11,722 in 2006.

But here's the trick, the stock market, regardless of which index represents it, is in the short-term (a year or two or three), a real roll of the dice -- be wary of anyone who suggests otherwise.

However, in the long-term (ten years or more), the market is very predictable and historically, diversified properly, one of the best investments available.

The challenge is to match your needs to the market; if your needs are short, stay out of the market; if your needs are long, stay in the market, and if your needs are in between, invest in a combination of stock market and shorter-term investments.

A new stock market record is always nice to see, but its relevance pales in comparison to matching your own financial timeline with the stock market's relentless march through time.

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