

## How To Measure The Stock Market's Gains And Losses

A former colleague at a major stock brokerage firm always confused "fiscal" with "physical". On June 30th, he would talk about the close of the "physical year". Just a mental block for an intelligent man. Fiscal year-end differs for corporations with most ending June 30th while others use December 31st. Fiscal is fancy jargon for "show me the money".

Measurements connotes appearances men notice. Year-end fiscal measurements get the attention of both genders. A friend reminds me, "You cannot track what you do not measure". Many market watchers measure the stock markets performance by tracking the Dow Jones Industrial Average. So, just what is the Dow Jones Industrial Average?

### The Dow Jones Industrial Average

When Charles Dow, a journalist, devised his index for securities, most investors were bond buyers. Bonds provided predictable ownership with specific interest payment (coupon) and a promised return of your money (principle) on a specific date (maturity). Only a few investors wanted stocks; for most, stocks were too risky.

Think you have trouble following stock prices? In 1884, investors read charts with prices up 1/4 point, down 1/8th point. All seemed rather perplexing (frankly, it is not much different today with newspapers printing decimal stock-closing prices).

On July 3 1884, Charles Dow published an average of leading American stocks to make it easier for investors. Railroad stocks and Western Union (for obvious reasons) were on the list. Railroads were the backbone of emerging economic forces tracked in the U.S. economy.

- \* Some recognized names: New York Central
- \* Union Pacific
- \* Chicago & North Western

As time progressed, the list changed, and still changes. Theoretically, the Dow Jones Industrial Average represents a wide range of industry in the United States. The Dow no longer includes railroads or utilities; they are separate averages. The Transportation and Utility Averages are proxies or "leading indicators" for the economy. One tells us about the movement of product; the other the energy used to produce it.

Today, the Dow Jones Industrial Average is a list of 30 stocks. When an index has a few stocks, the price of a few impacts the average. This often skews index pricing. For example during 2005, General Motors stock (GM) stalled and sputtered.

- \* GM 2005 performance Stock price January 3, 2005: \$40.30
- \* Stock price December 30, 2005: \$19.42
- \* Stock price loss percentage: 48%
- \* Current Dividend: \$2.00
- \* Year-end Yield: 10.30% (this is called a "yield rally")

### The Wilshire 5000 Average

The Dow Jones Industrial Average gets the recognition, but the Wilshire 5000 tells you more. For some reason, news stations will not give the Wilshire 5000 averages. Perhaps it would add confusion, or on the other hand, at accuracy.

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