

# TABELL'S MARKET LETTER

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A few weeks ago, we discussed the details of compilation for the Dow-Jones Industrial Average and averages in general, this being occasioned by the recent DJIA change which added IBM and Merck to that indicator. We have, in the past, compared the Dow with the various Standard & Poors indices which are, of course, capitalization weighted rather than effectively weighted by share price as is the Dow. With the recent revisions, another comparison of this sort may be of interest.

Standard & Poors 400-Stock Industrial Index is essentially a composite of a number of industrial group indices. While the Dow contains only 30 stocks, each of these stocks may be thought of as a proxy for an entire industry since most of the Dow components are the major factors in their own industries. The following table divides the Dow into the industrial-group classifications used by Standard & Poors, this breakdown showing that 19 industries are thus represented. Three stocks are treated individually rather than as part of an industry group, since S & P places them in a miscellaneous category. The table shows, for each group, the number of stocks (in parentheses), the group percentage weight in the Dow-Jones and in the S & P 400, and finally the Dow-Jones weight as a percent of the S & P weight. Obviously, the larger this last figure, the more the industry group is over-represented in the Dow relative to the 400, and the closer it is to 100, the greater the similarity of the two averages as far as the industry is concerned.

Industry	DJIA Weight	S&P 400 Weight	DJIA as % of 400
Oil -Integrated International (3)	11.00	11.42	96
Chemicals (3)	9.39	3.17	296
Soap (1)	6.02	1.75	344
Electronic - Major (2)	5.80	2.67	217
Office Equipment (1)	5.65	9.61	59
Drugs (1)	5.43	4.47	121
Minnesota Mining (1)	5.37	1.10	448
Tobacco (1)	4.99	1.59	314
Containers - Metal & Glass (2)	4.81	0.50	962
Auto (1)	4.67	3.91	119
American Telephone (1)	4.66	6.72	69
Eastman Kodak (1)	4.37	1.52	287
Aluminium (1)	4.25	0.80	531
Steel (2)	3.66	1.04	352
Retail General Merchandise (2)	3.64	2.07	176
Paper (1)	3.43	1.36	282
Agricultural Machinery (1)	3.29	0.73	451
Aerospace (1)	3.05	1.74	175
Food (1)	2.58	3.24	77
Building (Roofing & Wallboard) (1)	2.08	0.45	462
Metals, Miscellaneous (1)	1.57	1.17	134
Tire & Rubber (1)	1.28	0.40	320

Interestingly, the largest industrial component of the DJIA, International Oils, shows up with almost exactly the same Dow weight as S & P weight. The DJIA contains three international oil stocks comprising 11 percent of its total weight; the 400 contains six, with almost identical influence, 11.42 percent of its total weight. The Dow's biggest "distortion" arises from the inclusion of two stocks (American Can & Owens Illinois) in the Metal and Glass Container industry, a group which constitutes only half of one percent of the S & P 400. The inclusion of Alcoa, International Harvester, Goodyear, and American Brands in the Dow tends to overstate the importance of their respective industrial groups as does the inclusion of two steel stocks. Minnesota Mining and, to a lesser degree, Eastman Kodak, exercise a disproportionate influence on the Dow, since these stocks must be considered unique rather than representative of large industries.

The relationship may be turned around to explore those industry groups which comprise major portions of the 400 and which are unrepresented in the Dow. Here the Dow, especially with its recent changes, appears to be fairly representative. The ten largest industries in the 400 collectively constitute 52% of the weight of that index. Three of these are missing from the Dow, but two are oil-related, and the DJIA does, after all, contain three oil stocks. Conglomerates, however, constitute 2.22 % of the 400, the tenth largest single industry, and have no representative in the senior average. The next 10 S & P industrial groups constitute another 15% of the 400. Of these, Hospital Supplies, Forest Products, Soft Drinks, and Construction Machinery are unrepresented in the Dow.

There is, of course, some question as whether the compilers of the Industrial Average really wish, or indeed should wish, to make it more similar to a capitalization-weight index than it currently is. It is worth noting, however, that such a task could easily be accomplished by removal of some of the smaller companies referred to above, and their replacement by major factors in the under-represented or unrepresented industries.

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Dow-Jones Industrials (12:00 PM) 836.60  
S & P Composite (12:00 PM) 102.68  
Cumulative Index (7/26/79) 767.62

AWT:sla