

TABELL'S MARKET LETTER

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An interesting and fairly rare market event occurred this week as Inco and Owens-Illinois were replaced in the Dow Jones Industrial Average by Boeing and Coca-Cola. The event is rare because Dow Jones tends to treat new additions as a process roughly equivalent to conferring sainthood, something that should occur infrequently and only after due deliberation.

On the occasion of the Dow's 100th birthday some three years ago, we took the occasion to point out that 6 of the 30 issues had relatively small market capitalization. Two of these departed yesterday. At that time, we also suggested the inclusion of McDonald's which subsequently took place. As far as the latest changes are concerned, we find ourselves in agreement with the addition of Coca-Cola. We are less certain of the advisability of adding Boeing to an average which already includes United Technologies. We would have preferred a technological company outside the aerospace area such as Hewlett Packard or Digital Equipment.

The history of the Dow, mirroring, as it does, the changing composition of the U.S. economy is, to us, an interesting subject. The first average of any sort started in July, 1884, and 1896 saw the emergence of the first purely industrial average, this sector, at the time, being considered junior to the blue-chip rail industry. This first Industrial Average consisted of twelve stocks and, during its existence, contained such entities as Distilling and Cattle Feeding, Standard Rope and Twine, and Pacific Mail Steamship. It is hard to tie it into today's Industrials, since there were only twelve stocks, some preferred issues were included, and stock prices, until 1916, were quoted, like bonds, as a percentage of par. It was the termination of this practice that led to the creation on October, 4, 1916, of a new 20-Industrial Average, which can be considered the forerunner of the current Dow. Various changes were made over the next dozen years, and, on October 1, 1928, the twenty industrials became thirty, with ten new stocks added, and six substitutions being made.

Of these original twenty stocks, there is only one that today remains in the average with the same name and roughly the same business. That company is General Electric, also included in the original 1896 average. Two other original components remain but with changed names and, to a degree, changed businesses---U.S. Steel, now USX Corporation, and American Can, now a financial services company, shortly to be renamed Primerica.

Six other present components arrived on the scene between 1916 and 1928. In 1924 the average became less than strictly industrial with the additions of Sears and Woolworth. Allied-Signal (Allied Chemical), General Motors, Navistar (International Harvester) and Texaco (Texas Company) came on board in 1925. The expansion of the average to 30 issues in 1928 brought in four current components, Bethlehem Steel, Exxon (Standard Oil of New Jersey) Union Carbide, and Westinghouse were added at that time. The remaining 17 slots in the average have had various occupants in the years from 1928 to date.

This week's addition of Coca-Cola, interestingly, provides the second entrance of that stock into the Dow, where it also found a home between May, 1932 and November, 1935. There exists a fair number of cases in which a company as left the average only to return once more. The case most frequently cited is IBM, which entered the average in 1932, was dropped in 1939 to make room for American Telephone, and returned in June, 1979. Various attempts have been made to calculate the astronomical heights to which the Dow could have risen during the 40 years of its absence. An accurate estimate would be difficult to come by, and we do not intend to try. In addition to IBM and Coca-Cola, five of today's components have been in, out, and again in the average. In all, 45 companies, besides the current 30 components, have spent time in the average, five of them on two separate occasions.

It is our own thought, voiced here three years ago, that a few more changes should be made. It is possible that Dow Jones may be more willing to make future changes, having made seven in the past eight years. This followed a long period during which the components of the average remained largely unchanged. The 17 years from 1939 to 1956 saw no change whatsoever in the group, and only four changes occurred between 1956 and 1979. These were, the 1956 substitution of International Paper for Loew's, the 1959 swap of National Steel and National Distillers for Alcoa and Owens-Illinois, and finally the 1976 replacement of Anaconda by Minnesota Mining.

In closing, it is interesting to speculate what problems may force future changes. The continued inclusion of low-priced Bethlehem Steel and Navistar seems to be inappropriate. (Both stocks could double, and the average would only rise a bit over 14 points.) In addition, the change in character of American Can and the recent addition of American Express gives the Industrials two components in the financial-services category. Most other average-makers have created a separate Financial Average to go with Industrials, Transportation, and Utilities. Dow Jones, in 1970, changed the Railroad Average to a more comprehensive Transportation measure. The creation of a Dow Jones Financial Average seems to us, at least, appropriate.

ANTHONY W. TABELL
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AWT:bh
Cumulative Index (3/12/87) 3740.77
Dow Jones Industrials (12:00 p.m.) 2264.34
S & P 500 (12:00 p.m.) 290.98

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