

# Dow Jones index announces biggest shake-up in a decade



By Rodrigo Campos

NEW YORK (Reuters) - In the biggest shake-up of the Dow Jones Industrial Average in nearly a decade, Goldman Sachs, Visa and Nike will join the storied 30-stock index, with Bank of America, which just two years ago was the largest U.S. bank by assets, one of the names exiting the Dow.

The three newcomers - an investment bank, credit card payment processor and apparel company, respectively - will also replace Alcoa, in the index since 1959, and Hewlett-Packard Co. The changes will take effect at the opening of trading September 23, said S&P Dow Jones Indices, whose index committee makes decisions on the make-up of the average. With the changes, the committee again passed on a chance to include Apple Inc and Google Inc, the first- and third-largest U.S. companies by market value. Apple stock trades above \$500 and Google closed Monday above \$888.

"We looked at a handful above \$200, Google and Apple among them," said David Blitzer, managing director and chairman of the S&P Index Committee. "Those are obviously well-known, blue-chip, global companies. Both won't work in the Dow because of their price."

The Dow, created in 1896, is still considered Main Street's view of the stock market, even though its method of weighting stocks by price, rather than market value has kept out names like those two, among the most important U.S. companies, because of the outsized influence the stocks would have on the average.

Blitzer said S&P Dow Jones Indices has discussed changes to its methodology and would likely talk about it again. "It's the most recognizable index in the world, but there's almost no money in it," said Dave Nadig, President of ETF analytics at IndexUniverse LLC.

Even though S&P Dow Jones Indices classifies Visa Inc as a technology name, adding the nation's largest credit-card processor along with Goldman Sachs Group Inc reflects a further tilt toward financial services. Bank of America's run in the Dow was not one for the history books. The stock joined the index in February 2008, just a few months into what became the worst U.S. recession since the Great Depression. The stock is down more than 65 percent since it joined the Dow. The company was engulfed by the financial and housing crisis after it acquired sub-prime mortgage originator Countrywide Financial in January 2008. The bank said Tuesday being removed from the index "has no impact on our business or our strategy for providing solid returns to shareholders." With a market value of about \$157 billion, it becomes - other than Apple and Google - the biggest U.S. company not included in the average.

Nike Inc's addition marks the first inclusion of an apparel maker since International Shoe was replaced in 1933, according to S&P Dow Jones Indices records.

Following the announcement, Visa shares were up 2.9 percent at \$183.68, Goldman rose 3.6 percent to \$165.21 and Nike added 1.7 percent to \$66.51 after earlier hitting \$66.98, a record high. The Dow was up 0.7 percent on the day.

The changes announced Tuesday are the first in nearly a year, after UnitedHealth Group replaced Kraft's spinoff Mondelez International in September 2012.

## NOT WALL STREET'S BENCHMARK

Just \$30 to \$35 billion is indexed against the Dow, according to Blitzer, just a fraction of the roughly \$1.6 trillion indexed to the S&P 500. "It is certainly a retail (investor) number, when people talk about the Dow," said Joe Saluzzi, co-manager of trading at Themis Trading in Chatham, New Jersey.

Funds that attempt to replicate major indexes make up a large part of the U.S. stock market. Because they are designed to mimic market performance at a low cost, they have become among the most popular investment vehicles for investors. "Most of the money is being managed toward the broader indices so I don't think you have that much in the way of tracking. I don't think it's as important as when there is an S&P (change)," Saluzzi said, referring to when index funds buy companies added to an index and sell those that are removed.

The Dow's 30-stock membership is generally considered too small for a broad-based mutual fund, and the priced-weighted design is problematic because smaller companies with higher share prices can exert disproportionate influence. Presently, IBM, the highest-price stock in the average, accounts for more than 9 percent of the index, even though it is the eighth-largest by market value. The additions of Visa and Goldman partly tame the heavy IBM influence. IBM's weighting in the Dow will drop to about 8 percent from 9.4 percent, and Visa and Goldman will account for 7.7 and 6.9 percent of the average, according to Birinyi Associates.

The SPDR Dow Jones Industrial Average ETF, a trust that tracks the Dow's performance, has net assets of \$11.9 billion, ranking it in the top 30 among U.S. ETFs, according to Thomson Reuters data. The largest ETF, the SPDR S&P 500 ETF, has \$143.9 billion in assets.

In volume terms the Dow ETF, previously known as the Diamonds Trust, ranks 35th among the most actively traded ETFs with a 50-day average of 5.4 million shares exchanging hands.

The SPY averages 106 million shares traded daily.

### **THE NEW OUTPERFORMERS?**

The three stocks slated to join the Dow have outperformed the blue-chip index's 14.9 percent gain in 2013 to Monday's close. Visa had gained 17.8 percent, Goldman 25 percent and Nike 26.7 percent. Of the stocks that will leave, Alcoa had underperformed the index, with a 6.9 percent year-to-date fall. Bank of America was up nearly 25 percent and HP had jumped 57 percent. Alcoa said being dropped from the Dow would not affect its ability to carry out its strategy. It's seen as a candidate for elimination for some time, with its market cap of \$8.7 billion easily the lowest in the average.

It is the first three-for-three change to the index since April 8, 2004, when American International Group, Pfizer and Verizon replaced AT&T Corp, Eastman Kodak and International Paper. AT&T later returned following a merger.

(Additional reporting by Chuck Mikolajczak, Peter Rudegeair, Ashley Lau; Editing by David Gaffen, Chizu Nomiyama and Nick Zieminski)

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