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# DOES THE DOW REFLECT THE MARKET?

Most people look to the Dow as a key benchmark of how well the stock market is doing generally. Many even use it as reference when considering their personal portfolios performance. However, many investment professionals have come to view the 107 year old Dow as a less important benchmark than other comprehensive or precise indices. The Dow is an indicator of stock market prices, based on the share values of 30 leading companies listed on the New York Stock Exchange. Here are a few of the other benchmarks that you are most likely to hear about:

- Standard & Poors 500 Composite Stock Index (S&P 500) follows the performance of 500 stocks and it is generally considered to be a good barometer for the U.S. Stock Market. The S&P 500 is weighted so that the larger total market value of a company, the greater impact it will have on the index.

- The NASDAQ Composite Index (NASDAQ is an acronym for the National Association of Securities Dealers Automated Quotation System) is like the S&P 500, market weighted, but it covers a great many more stocks – more than 5,000 to be exact. Although in the past it was considered a good measure of small company or broad market performance, today it may be too technology heavy to be a measure of either.

- The Russell 2000 Index is produced by the Frank Russell Company from its Russell 3000 Index of the 3000 largest U.S. based companies which represent 98% of the investable U.S. equities market. From that base, the firm derives the Russell 1000 Index of large-cap stocks. The remaining 2000 stocks make up just 8% of the market's total capitalization, making the Russell 2000 a fairly good measure of small-cap stock performance.

- The Wilshire 5000 Index, which actually covers over 7000 stocks and aims to include all U.S. headquarter equities with readily available price data.

- The Morgan Stanley Capital International, Europe, Australasia, Far East Index. This covers over 1000 foreign stocks and is a widely used benchmark for international portfolios.

- The Shearson Lehman U.S. Aggregate Bond Index, which tracks the U.S. Bond Market

Understanding the benchmarks is one thing, knowing how to interpret them is another. Upward and downward movements in terms of pure numbers can be deceiving. It's better to think of movements in terms of percentages. For example, a 10 point move carries little significance in a 10,000 plus Dow Jones Industrial Average (a 0.1% change), but it is almost a 1% change in an 1,100 S&P 500Index.

For long-term investors, moves such as these should carry little weight.  Rather, consider what you have learned from benchmarks as information that helps keep you aware on a daily basis of what the markets are doing.  Any changes in your investment strategy should take in account your personal circumstances and risk tolerance, along with your tax and liquidity needs.  The benchmarks can be helpful in designing an investment strategy that will suit your needs for today and your future.