With Apple in, Dow would have set record long ago

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In a Wednesday, Dec. 7, 2011 file photo, a person stands near the Apple logo at the company's new store in Grand Central Terminal, in New York. If Apple had been added to the Dow in June 2009, the last time there were serious rumors that it would happen, the average would be about 2,500 points higher than it is today and well above its all-time high.(AP Photo/Mark Lennihan, File)

(AP) -- Apple is the world's most valuable company. The Dow Jones industrial average is probably the world's best-known stock index. So don't they deserve each other?

Consider this: If Apple had been added to the Dow in June 2009, the last time there were serious rumors that it would happen, the average would be about 2,500 points higher than it is today and well above its all-time high.

Paul Hickey of Bespoke Investment Group, which crunches numbers about the markets, says the Dow would be at 15,360, about 1,200 points above its record of 14,164, set in October 2007. The Dow closed Wednesday at 12,835.

Not only would investors be perkier, but everyday Americans watching the Dow set one record after another would probably feel wealthier. That might inspire them to spend more money and help the economy grow faster.

But if you think the time is right for an Apple-Dow marriage, don't check your mailbox for a wedding invitation. Apple, which redefined how people listen to music and reinvented the cellphone, is simply too hot for the Dow.

In 2009, when a bankrupt General Motors and a hobbled Citigroup were booted from the Dow and Apple was talked about as one replacement, Apple stock traded at about $144.

On Wednesday, it closed at $569. Because of how the Dow is calculated, Apple would dwarf the other stocks in the average and distort the Dow from its purpose - which is to reflect the broad economy, not represent the hottest stocks.

A big one-day gain by Apple, like a $50 jump after it reported blockbuster earnings last month, would send the Dow higher by hundreds of points. Similarly, a big drop would suggest the market was in more trouble than it really was.

The Dow comprises 30 stocks. It is weighted so that a $1 move by any stock, no matter how cheap or expensive, moves the average the same - about seven and a half points as the Dow is calculated today.

Because it's much easier for a $100 stock to move $1 than it is for a $20 stock, higher-priced stocks carry more importance. IBM, at about $200, is the most expensive stock and carries nearly 12 percent of the Dow's weight.

Apple would carry a quarter or more, depending on which stock it replaced. That is why the Dow would be thousands of points higher if it had welcomed Apple in 2009: Each share of Apple has grown by hundreds of dollars since then.

"It wouldn't be the Dow Jones industrial average," says Nicholas Colas, chief market strategist at ConvergEx Group. "It would be the Apple Plus Some Other Stuff Index."

Apple is already the biggest component of the other two major U.S. stock indexes: It makes up nearly 12 percent of the Nasdaq composite and more than 4 percent of the Standard & Poor's 500.

The Dow was born in 1896 and has changed over the years to reflect the changing economy. Agricultural and coal companies have been replaced by banks and drug companies. Car makers have knocked off railroads.

Of the Dow's 12 original stocks, only General Electric is still part of the index. So why not add Apple, which has enormous cultural pull and admiration throughout corporate America - plus a market value of half a trillion dollars?

"We don't run the Dow as we would an investment portfolio," says John Prestbo, the executive editor of Dow Jones Indexes, which maintains the Dow and other indexes.

Prestbo, along with the managing editor of The Wall Street Journal and the research head of the CME Group, which owns a majority stake of Dow Jones Indexes, decide which companies make up the Dow.

They meet occasionally to discuss whether they need to change the index. The CME Group provides benchmark indexes on investments like agricultural products, energy and metals.

The Dow committee might boot a company if it's no longer an industry leader, or if its industry is too heavily represented. Sometimes companies will ask to be included, which doesn't necessarily hurt or help their case, Prestbo says.

Three years ago, when GM and Citigroup got the ax, the group snubbed Apple and chose Cisco Systems, which makes computer networking equipment, and Travelers Companies, the insurance provider.

Travelers is up almost 50 percent since it was added to the Dow, but Cisco has moved slightly lower. In the hypothetical example provided by Bespoke, Apple would have replaced Cisco in 2009.

There's some history behind the idea of having the most valuable company be part of the Dow. Exxon Mobil, which held the title until Apple wrested it in January, is a Dow member. Ten years ago, two Dow components, Microsoft and GE, jockeyed for the honor.

But Prestbo brushes off the what-if questions about Apple. Would the Dow be higher? Sure, he says. "But it also wouldn't be tracking the market."