

Dow reshuffle: Apple joins blue-chip index, AT&T gets booted

March 6 2015, by Bernard Condon And Mae Anderson



A trader walks by the post that handles AT&T on the floor of the New York Stock Exchange, Friday, March 6, 2015. Apple will replace AT&T in the Dow Jones industrial average, the managers of the index announced early Friday. (AP Photo/Richard Drew)

Apple is in. AT&T is out.

In another milestone for the popular and profitable iPhone giant, Apple will replace AT&T in the venerable Dow Jones industrial average on

March 19, the manager of the index announced Friday.

The move isn't likely to impact the 30-stock index much, and will have no effect on the fortunes of the two companies. But market experts say it does have symbolic importance, sort of like getting an Oscar at the Academy Awards—or at least a nomination.

The change cements Apple as "the gold standard of technology," says Daniel Ives, a financial analyst at FBR Research. "They've really become the modern-day Wright Brothers."

The reshuffling of the 119-year-old Dow, a barometer of market fortune and folly once dominated by railroads, also reflects a changed business world.

"It underscores that technology continues to be a critical driver of the overall economy," says Edward Jones analyst Bill Kreher.

Apple is the world's most valuable company. Its market value on the stock exchange, or what it would take to buy all its shares, closed last month above \$700 billion, a first for any company.

Apple won't get top billing in the Dow, though. Thanks to a quirk in the way the index is calculated, that honor will go to a company a little over a tenth as valuable: Goldman Sachs.

The Dow weights companies by how much it costs to buy a single share, not all of them. On Friday, a Goldman share fetched \$186.91 versus \$126.60 for Apple.

A look at the musical chairs at the world's most famous index:

THE REASON

For all the symbolic importance, the trigger for the move is less colorful. The manager of the index, the S&P Dow Jones Indices, said it's making the change in response to a planned stock split for Visa, another Dow member.

After its four-to-one split, Visa will wind up with a lower price. S&P said that would reduce the weight of the information technology sector in the Dow because Visa, a credit-card and payment-processing giant, counts as a tech stock. Adding Apple will help balance out this reduction.

TWEAKING THE INDEX



A trader, right, works at the post that handles AT&T on the floor of the New York Stock Exchange, Friday, March 6, 2015. Apple will replace AT&T in the Dow Jones industrial average, the managers of the index announced early Friday. (AP Photo/Richard Drew)

S&P Dow Jones Indices said the decision to fold in Apple won't alter the overall level of the index, which stood at 17,856 Friday.

S&P Dow Jones is casting the move as a sort of a housekeeping maneuver, a way to ensure that the index better reflects the U.S. economy and markets.

The switch is not a reflection of its view of Apple.

"This doesn't mean we like the stock, or don't like the stock, or something like that," says David Blitzer, chairman of the index committee at S&P Dow Jones.

CHALLENGES AT AT&T

While the Dow change wasn't triggered by anything AT&T did, it comes at a challenging time for the phone giant.

The nation's second-largest wireless carrier is facing pressure from smaller rivals T-Mobile and Sprint in a competitive environment in which most Americans already have a cellphone.

Its stock has risen just 3.5 percent in the past 12 months. That compares with a 10.4 percent gain in the Standard & Poor's 500. Apple, meanwhile, has jumped 67 percent.

To keep growing, AT&T has had to look beyond cellphones—to tablets and connected cars, for example. Adding a tablet to a phone plan gets AT&T another \$10 in monthly service fees.

The Dallas-based company is also trying to wean customers off equipment subsidies and shift them toward installment plans in which they ultimately pay full price for a phone.

In its most recent quarter, AT&T booked a loss due to one-time expenses. But its revenue rose 4 percent as it added 1.9 million subscribers, double the year-ago quarterly increase.

AT&T has bounced in and out of the blue chip average over the Dow's long history. It first entered in 1916 as American Telephone & Telegraph, joining Central Leather, Studebaker and other industrial giants in an elite club of 20 companies. Much later, in 2004, AT&T was kicked out only to return the following year when it merged with SBC Communications.

THE DOW STILL MATTERS

Created in 1896, the Dow is one of the oldest gauges of stocks. Grover Cleveland was U.S. president that year. Companies like the Pacific Mail Steamship were counted among its ranks.

The index tracks only 30 stocks. The Standard & Poor's 500 reflects the moves of 500.

The S&P 500 also ranks companies differently, assigning weights based on the value of all a company's shares, not just one. That gives Apple more influence on daily moves in the index than any other stock. It accounts for nearly 4 percent of the index.

Professional investors focus more on the S&P 500 because they think it reflects the stock market better. They tend to use that index, not the Dow, to judge the performance of their own portfolios.

Ordinary investors also prefer the S&P 500, judging from the money they've put into index funds that mimic its performance. Investors have \$4 trillion in 1,261 funds that track the S&P 500, according to Morningstar. That compares with just \$13.6 billion in 12 Dow-based

index funds.

Still, the Dow can't be dismissed as a relic. It continues to be much cited and isn't seen as wildly distorted.

One reason is that, for all its flaws, the Dow has largely mirrored the ups and downs of the much larger S&P 500. In the past 12 months, for instance, the Dow has risen 8.7 percent versus the S&P 500's 10.4 percent.

The last big Dow shake-up came in September 2013, when Goldman Sachs, Nike and Visa knocked out Alcoa, Bank of America and Hewlett-Packard.

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Citation: Dow reshuffle: Apple joins blue-chip index, AT&T gets booted (2015, March 6)
retrieved 26 April 2024 from <https://phys.org/news/2015-03-apple-att-dow-jones-industrial.html>

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