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## TIME TO DISAVOW THE DOW RIGHT NOW?



Currencies	\$1=	Change	%Change
British POUND	0.6529	+0.0001	+0.012%
Czech KORUNA	20.1790	-0.0440	-0.218%
Danish KRONE	5.8659	+0.0005	+0.009%
European EURO	0.7889	+0.0002	+0.028%
Hungarian FORINT	244.9750	-0.4150	-0.169%
Norwegian KRONE	6.0616	+0.0023	+0.038%
Polish ZLOTY	3.4800	-0.0030	-0.161%
Russian RUBLE	31.8485	-0.0307	-0.956%
Swedish KRONA	6.9836	+0.0019	+0.027%
Swiss FRANC	0.9535	+0.0018	+0.188%

Stock Sectors	3 Month % Change
Communications	-0.86%
Consumer Durables	+5.65%
Consumer Non-Durables	+2.88%
Commercial Services	+6.41%
Electronic Technology	+2.53%
Minerals	+6.61%
Energy	+5.52%
Health Services	+11.73%
Retail	+5.11%
Technology Services	-1.57%
Transportation	+9.78%
Utilities	+3.97%





## *Time to Disavow the Dow Right Now?"* *Trending Today - 1.14.2022*

The oldest and still most widely quoted proxy for the U.S. stock market, the [Dow Jones Industrial Average](#) (DJIA), or “the Dow” for short, continues to be regularly quoted by news broadcasts, newspapers, and smartphone apps as an indicator of the health (or lack thereof) of the financial markets and U.S. economy.



The Dow history is interesting, as it was created in the late 19th century by [Charles Dow](#), co-founder of [Dow Jones & Company](#) and co-founder and editor of the [Wall Street Journal](#) (WSJ), and [Edward Jones](#), the WSJ’s other co-founder. It is an index that has gone through [57 different revisions](#) since it was created, and to this day is supposed to encapsulate the overall state of the stock market in a single number.

The composition of the Dow right now is determined by the [Index Committee](#), and is designed to change as the economy changes over time. [Initially comprised of 12 of the biggest and most influential companies of the day](#), the Dow history includes an expansion to 20 companies in 1916; by 1928, it included 30 companies, which continues to be the number tracked today. Any current member of the Dow can be dropped by the Committee if the company is deemed to be less relevant to current economic trends, to be replaced by a new company that the Committee determines to

better reflect said trends. The 30 companies that currently comprise the DJIA index, and the year they were added, are as follows:

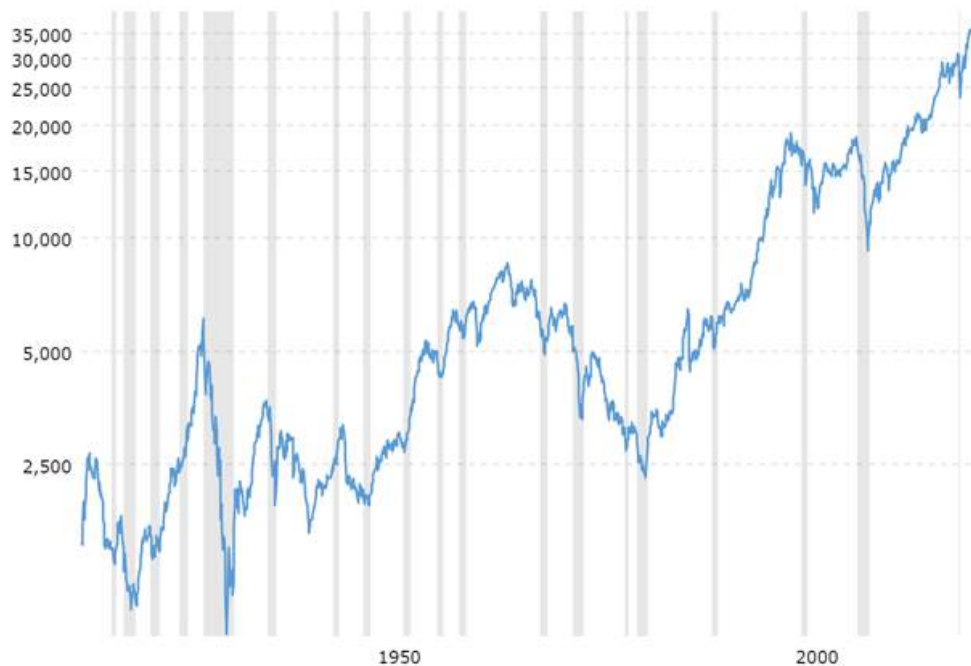
Company	Symbol	Year Added
3M	MMM	1976
American Express	AXP	1982
Amgen	AMGN	2020
Apple Inc.	AAPL	2015
Boeing	BA	1987
Caterpillar Inc.	CAT	1991
Chevron Corporation	CVX	2008
Cisco Systems	CSCO	2009
Dow Inc.	DOW	2019
Goldman Sachs	GS	2013
Honeywell	HON	2020
IBM	IBM	1979
Intel	INTC	1999
Johnson & Johnson	JNJ	1997
JPMorgan Chase	JPM	1991

McDonald's	MCD	1985
Merck & Co.	MRK	1979
Microsoft	MSFT	1999
Nike	NKE	2013
Procter & Gamble	PG	1932
Salesforce	CRM	2020
The Coca-Cola Company	KO	1987
The Home Depot	HD	1999
The Travelers Companies	TRV	2009
The Walt Disney Company	DIS	1991
UnitedHealth Group	UNH	2012
Verizon	VZ	2004
Visa Inc.	V	2013
Walgreens Boots Alliance	WBA	2018
Walmart	WMT	1997

As the U.S. economy has grown over time, so has the value of the Dow. Below is a graph from FRED ([Federal Reserve Economic Data](https://fred.stlouisfed.org/)) reflecting how the DJIA has *almost tripled* over just the past ten years, growing from **12,741.02** on 1/12/2012, to **36,252.02** on 1/11/2022:



Ten years of data not enough for you? Below is a [logarithmic chart](#) from [Macrotrends](#) reflecting the Dow history and growth over the past 100 years (the grey bands reflect recessions in the U.S.):



Albeit with regular speed-bumps along the way, the continued and sustained growth of the Dow has been pretty amazing!

Interested in learning more? Click the thumbnail below for a straightforward YouTube video from [PBS](#) that discusses everything to do with the Dow right now:



However, for all of its “glory” and history as the best-known and perhaps most widely followed stock market index in the world, is the Dow right now really all it’s cracked up to be? At [Towerpoint Wealth](#), we argue the answer is **no**, as the index is as flawed today as when it was [first calculated on May 26, 1896](#). The various “warts” of the Dow give us



pause, and cause us to *discourage* our clients from considering it a truly useful proxy and viable resource to rely on.

Here are four specific reasons why we disavow the Dow right now:

1. It is narrow – “only” 30 companies are represented in the index|

Because (in theory) the 30 companies that comprise the Dow Jones Industrial Average (DJIA) index are the largest and most influential in the country, they represent only about 25% of the value of the entire U.S. stock market. However, many experts (ourselves included) feel that because it consists of only 30 [large capitalization](#) (“large cap”) U.S. companies, and neglects mid cap and small cap companies, the DJIA index does not properly represent the comprehensive state of the U.S. economy.

2. The Dow is a [price-weighted index](#)

An index that is price-weighted means that higher-priced stocks have greater weight and influence on the index compared to lower-priced stocks. On the surface this may seem logical, but the problem is that a higher-priced stock has **zero** correlation with a higher-value company. Put differently, a \$9 stock could have a higher value than a \$50 stock, but because the Dow is price-weighted, that doesn't matter.

In a price-weighted index, a stock that increases from \$90 to \$100 (an 11% increase) will have the same effect on the value of the overall index as a stock that increases from \$10 to \$20 (a 100% increase), even though the percentage move for the lower priced stock is far greater than that of the higher-priced stock.

Put differently, a percentage change up or down in the Dow doesn't necessarily mean that the entire market has gone up or down, *or even that the Dow's 30 companies have collectively gone up or down*. The higher-priced stocks contained in the index simply exert a much greater influence on its overall direction and movement.

A prime example of why the price-weighted indexing method doesn't make logical sense is when an index component undergoes a stock split. Prior to splitting 4-for-1 in August of 2020, Apple was the highest weighted position in the Dow at 11%, but once its stock split, it immediately had *much less influence* on the Dow, as it dropped to the 18th highest weighted stock in the index. While a stock split obviously does not have any influence nor change the underlying value of a company (it just lowers the share price and increases the amount of shares outstanding), it **does change** the influence a company has within the price-weighted index it is part of.

3. The Index Committee has only five members, and uses a vague methodology for including a stock in the Dow

Discretion is an integral part of how indices are constituted, and the Dow is certainly no exception. Unlike the S&P 500, which has a long list of eligibility requirements [that some big companies can't meet](#), the Dow does not have hard-and-fast rules regarding how a stock gains entry to the index. It is not governed by quantitative rules, with S&P Global subjectively stating that "A stock is typically added only if the company has an excellent reputation, demonstrates sustained growth and is of interest to a large number of investors."

[Additionally, on the Dow's Committee there are only two representatives from the Wall Street Journal and three from S&P Global.](#) Given the cozy size of the Committee, the subjective nature of how the index is constructed, and the sheer size and financial importance of the Dow, any decisions to include or remove companies from the index impact trillions of dollars of investor funds, not to mention the potential retention of institutional investor clients by S&P Global. This can create conflicts of interest, or even opportunities for illegal activity and fraud. Don't believe us? In September of 2020, [James Yang, a member of the Index Committee, was charged with being part of an insider trading scheme leading to more than \\$900,000 in profits.](#)

4. The Dow right now does not contain some of the largest and most dominant companies in the U.S. economy

Even though they represent well what has become the most dominant sector of the U.S. economy, three of the largest and most influential technology "titans" – [Alphabet](#) (formerly Google), [Amazon](#), and [Meta Platforms](#) (formerly Facebook), are not part of the Dow. Why? See #2 above – their share prices are too high. While there is nothing fundamentally wrong with these companies, because of the Dow's price weightings, they won't be included in the index because they would swamp it due to their high share prices.

The only way the Dow would ever be able to accommodate any of these three stocks is if they went through a stock split, which makes zero sense, as does excluding companies from the Dow who clearly are excellent representatives of the overall United States economy just because their stock prices are too high.

The Dow has been around for 125 years, is not going anywhere, and continues to clearly be [in the mind's eye](#) of investors. However, the four reasons listed above support our belief that it does not accurately represent the market, and just because the Dow right now is an old, familiar, and oft-quoted figure does not make it accurate, and it should not be used as a proxy for investors to gauge the health of our economy or to measure the progress (or lack thereof) of the stock market.



## What's Happening at TPW?

A big thank you and shout-out to two excellent Towerpoint Wealth clients, David Junod and Pauline Lhote, for the very generous and thoughtful sparkling wine holiday gift from [Domaine Chandon](#)!

Now we just have to find an excuse to actually pop a bottle or two and enjoy, rather than just pretending! Cheers!





Just last week, our [President, Joseph Eschleman, CIMA®](#), earned his [Certificate in Blockchain and Digital Assets \(CBDA\)](#) from the [Digital Assets Council of Financial Professionals](#).

The CBDA course is the only cryptocurrency certificate program designed specifically for financial professionals. Graduates of the program have gained the essential knowledge and understanding of [blockchain and digital assets](#), better equipping them to provide investors the expertise and advice they need about this new and transformational asset class.

Click [HERE](#) to review exactly what Joe learned, and [HERE](#) to discuss with us how your portfolio might benefit by adding digital assets and cryptocurrency to it.



**DACFP**  
Digital Assets Council  
of Financial Professionals

## TPW Taxes - 2022

2022 will assuredly be a different year than 2021, with income taxes no exception. **Click the image below** to access the **2022 Quick Tax Reference Guide**, a practical resource providing a plethora of consolidated and easy-to-understand information to help you make sense of the complex and ever-evolving array of [U.S. federal tax rules](#).

At Towerpoint Wealth, we recognize that income taxes are a “necessary evil” when helping you build and protect your wealth and net worth, but fortunately they can be planned for, managed, and oftentimes minimized!





Click [HERE](#) to read more about our “tax sensitivity” and philosophy towards reducing your obligation to Uncle Sam.

## 2022 Quick Tax Reference Guide

### Federal Income Taxes

Taxable Income				
Over	But not over	Tax +	% on excess	Of the amount over
<b>Single Filers</b>				
\$0	\$10,275	\$0.00	10.0%	\$0
\$10,276	\$41,775	\$1,027.50	12.0%	\$10,275
\$41,776	\$89,075	\$4,807.50	22.0%	\$41,775
\$89,076	\$170,050	\$15,213.50	24.0%	\$89,075
\$170,051	\$215,950	\$34,647.50	32.0%	\$170,050
\$215,951	\$539,900	\$49,335.50	35.0%	\$215,950
\$539,901	∞	\$162,718.00	37.0%	\$539,900
<b>Married Filing Jointly</b>				
\$0	\$20,550	\$0.00	10.0%	\$0
\$20,551	\$83,550	\$2,055.00	12.0%	\$20,550
\$83,551	\$178,150	\$9,615.00	22.0%	\$83,550
\$178,151	\$340,100	\$30,427.00	24.0%	\$178,150
\$340,101	\$431,900	\$69,295.00	32.0%	\$340,100
\$431,901	\$647,850	\$98,671.00	35.0%	\$431,900
\$647,851	∞	\$174,253.50	37.0%	\$647,850
<b>Married Filing Separately</b>				
\$0	\$10,275	\$0.00	10.0%	\$0
\$10,276	\$41,775	\$1,027.50	12.0%	\$10,275
\$41,776	\$89,075	\$4,807.50	22.0%	\$41,775
\$89,076	\$170,050	\$15,213.50	24.0%	\$89,075
\$170,051	\$215,950	\$34,647.50	32.0%	\$170,050
\$215,951	\$323,925	\$49,335.50	35.0%	\$215,950
\$323,926	∞	\$87,126.75	37.0%	\$323,925
<b>Head of Household</b>				
\$0	\$14,650	\$0.00	10.0%	\$0
\$14,651	\$55,900	\$1,465.00	12.0%	\$14,650
\$55,901	\$89,050	\$6,415.00	22.0%	\$55,900
\$89,051	\$170,050	\$13,708.00	24.0%	\$89,050
\$170,051	\$215,950	\$33,148.00	32.0%	\$170,050
\$215,951	\$539,900	\$47,836.00	35.0%	\$215,950
\$539,901	∞	\$161,218.50	37.0%	\$539,900
<b>Trusts and Estates</b>				
\$0	\$2,750	\$0.00	10.0%	\$0
\$2,751	\$9,850	\$275.00	24.0%	\$2,750
\$9,851	\$13,450	\$1,979	35.0%	\$9,850
\$13,451	∞	\$3,239	37.0%	\$13,450
<b>Standard Deductions</b>				
	2022	2021		
Single	\$12,950	\$12,550		
Married filing Jointly	\$25,900	\$25,100		
Head of Household	\$19,400	\$18,800		

Source: IRS.gov

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### Traditional and Roth IRA

	2022	2021
<b>IRA annual contribution limit</b>		
Contribution limit	\$6,000	\$6,000
50+ Catch-up	\$1,000	\$1,000
<b>Traditional IRA deductibility phase-out based on MAGI</b>		
Participants in employer plans		
Married filing jointly or qualifying widow(er)	\$109,000 - \$129,000	\$105,000 - \$125,000
Married filing separately	\$0 - \$10,000	\$0 - \$10,000
Single or head of household	\$68,000 - \$78,000	\$66,000 - \$76,000
Non-participant married to a participant		
Married filing jointly	\$204,000 - \$214,000	\$198,000 - \$208,000
Married filing separately	\$0 - \$10,000	\$0 - \$10,000
<b>Roth IRA phase-out based on MAGI</b>		
Married filing jointly or qualifying widow(er)	\$204,000 - \$214,000	\$198,000 - \$208,000
Married filing separately and lived with your spouse	\$0 - \$10,000	\$0 - \$10,000
Single or Head of Household, or Married filing separately and lived apart from your spouse	\$129,000 - \$144,000	\$125,000 - \$140,000

Source: IRS.gov

### SEP IRA and SIMPLE IRA contribution limits

	2022	2021
Maximum annual additions to a SEP IRA	\$61,000	\$58,000
Maximum compensation considered for a SEP IRA	\$305,000	\$290,000
SIMPLE IRA salary deferral amount	\$14,000	\$13,500
50+ Catch-up	\$3,000	\$3,000

Source: IRS.gov

### Qualified Plans

	2022	2021
401(k), 403(b), 457(b) salary deferral	\$20,500	\$19,500
50+ Catch-up	\$6,500	\$6,500
SIMPLE IRA salary deferral amount	\$14,000	\$13,500
SIMPLE Salary deferral 50+ Catch-up	\$3,000	\$3,000
Maximum annual additions in a defined contribution plan	\$61,000	\$58,000
Maximum Annual benefit in defined benefit plan	\$245,000	\$235,000
Maximum compensation considered	\$305,000	\$290,000
Highly compensated employee	\$135,000	\$130,000
Key employee - Officer	\$200,000	\$195,000

Special catch-up rules applies to certain 403(b) contributors with 15 or more years of service and government 457(b) participants in the last 3 years before retirement.  
Source: IRS News Release IR-2019-115



## TPW News You Can Use

Useful and interesting content we read the past two weeks:

1. [Desperate No-Vaxxers Paying COVID-Positive People \\$150 for Dinner and COVID Infection](#) – *The Daily Beast* – 1.12.2022

A new vaccination mandate in Italy requires everyone over 50 to be vaccinated or

pay a hefty fine. Some are opting to pay to get infected with COVID instead.

2. [The 2022 NFL Playoffs – Everything You Need to Know](#) – *com* – 1.9.2022

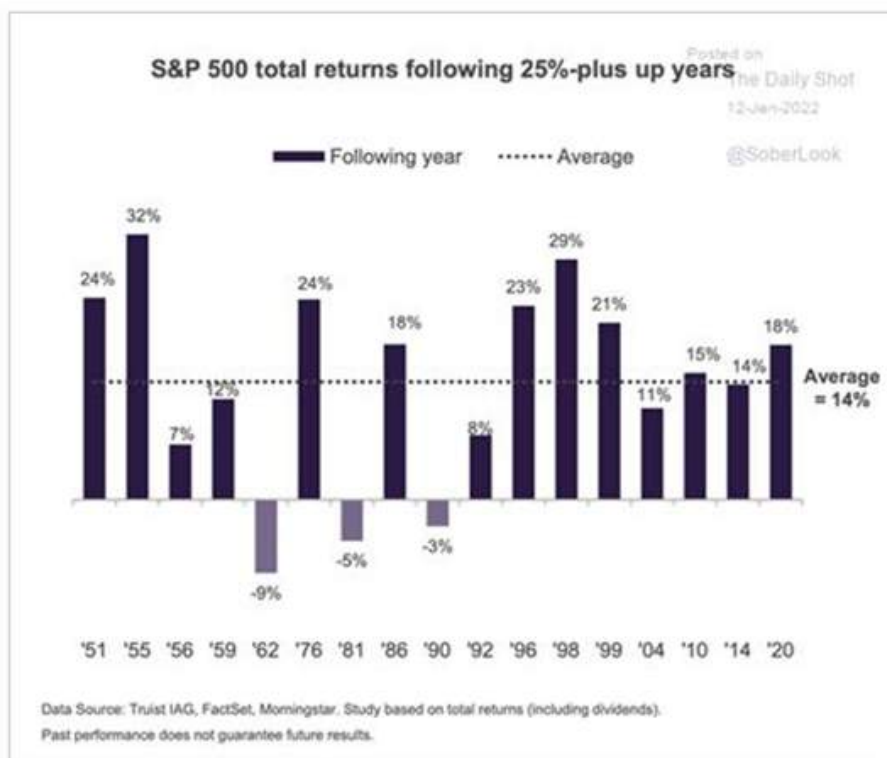
AFC, NFC, and Super Bowl 2022 schedule. Seedings. TV times, dates, locations. Find everything you need to know about the NFL playoffs here.

3. [Hillary 2024? Don't Rule It Out](#) – *The New York Post* – 1.12.2022

Could a third time be the charm for Hillary Clinton? That's the case made by two prominent Democrats who claim a "perfect storm" of President Biden's plummeting job approval ratings, Vice President Kamala Harris' own unpopularity, and the commander-in-chief's advanced age could provide an opening for the former first lady and secretary of state.

### Chart of the Week

After a [26.9% gain for the S&P 500 in 2021](#), many investors are hopeful that 2022 is another strong year for the markets. And while *consistently* and *accurately* predicting the future is next to impossible, the chart below from [Morningstar](#) gives hope to what the future may have in store for the market this year:





## Quote of the Week

Staying positive and keeping a good attitude is key!



## Trending Today

As the 24/7 news cycle churns, twists, and turns, a number of trending and notable events have occurred over the past few weeks:

- [Microsoft hit by defections as employees move to Facebook parent Meta](#)
- [Inflation reaches its highest level since 1982 as consumer prices surge 7.0% over the past year](#)
- [San Francisco mayor London Breed announces no new restrictions, says that "we are learning to live with COVID"](#)
- [Russia has amassed 100,000 combat-ready troops, tanks, and other military equipment by Ukraine, and NATO is doing what it can to ease tensions](#)

- [Rachel Balkovec to be the first woman ever to manage a team affiliated with Major League Baseball](#)
- [Oakland students threaten to boycott classes unless school district meets COVID demands](#)
- [Sidney Poitier dies at home at the age of 94](#)
- [Analysts speculate that oil prices could hit \\$100 as demand outstrips supply](#)

As always, we sincerely value our relationships and partnerships with each of you, as well as your trust and confidence in us here at Towerpoint Wealth. We encourage you to reach out to us at any time (916-405-9140, [info@towerpointwealth.com](mailto:info@towerpointwealth.com)) with any questions, concerns, or needs you may have. The world continues to be an extremely unsettled and complicated place, and we are here to help you properly plan for and make sense of it.

- Joseph, Jonathan, Steve, Lori,  
Nathan, and Michelle



**We enjoy social media, and are actively growing our online community!**

**Follow us on any of these platforms, message us there and let us know your favorite charity. We will happily donate \$10 to it!**

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