THE DOW JONES INDUSTRIAL AVERAGE

THE FIRST CENTURY: 1896-1996

THE DOW JONES Industrial Average traces more than the development of American business from small, local companies into global powerhouses. It chronicles the evolution of investing as well.

When Charles H. Dow first unveiled his industrial-stock average on May 26, 1896, the stock market wasn't highly regarded.

Prudent investors bought bonds, which paid predictable amounts of interest and were backed by machinery, buildings and other hard assets.

Charles H. Dow

Stocks, by contrast, were considered very unsavory because daredevil speculators, conniving Wall Street pool operators and corporate raiders did their best to stage-manage prices. Stocks moved on dubious tips and scurrilous gossip because solid information was hard to come by.

Mainstream Investing

Today, stocks are routinely considered as investment vehicles, even by conservative investors. Interest has widened far beyond the Wall Street cliques of the past century to millions of everyday working men and women who turn to stocks to help them amass capital for their children's college tuition bills and their own retirement. Information to guide them in their investment decisions is abundantly available. The Dow Jones Industrial Average played a role in bringing about this tremendous change.

In 1896, even people on Wall Street found it hard to tell from the daily jumble of up-a-quarter and down-an-eighth whether stocks generally were rising, falling or treading water. Charles Dow devised his stock average to make sense out of this confusion.

Charles M. Bergstresser

He began in 1884 with 11 stocks, most of them railroads — the first great national corporations. He compared his average to placing sticks in beach sand to determine, wave after successive wave, whether the tide was coming in or going out.

If the average's peaks and troughs rose progressively higher, a bull market prevailed; if the peaks and troughs dropped lower and lower, a bear market was on.

This seems simplistic in these days of myriad market indicators, but late in the nineteenth century, Mr. Dow's average was a powerful new beacon that cut through the fog. It provided a convenient benchmark for comparing individual stocks to the course of the market, for comparing the market with other economic indicators, or simply for conversation at the corner of Wall and Broad Streets about the market's direction.

The stock average was just one expression of the mission Mr. Dow and his partners, Edward D. Jones and Charles M. Bergstresser, set for themselves in founding Dow Jones & Company in 1881: to enlighten investors and business people with accurate, factual information, speedily delivered.

By tending resolutely to this purpose, the fledgling company built a reputation for integrity.

Though they had nothing to do with the averages directly, Mr. Jones and Mr. Bergstresser contributed immensely to the environment in which Mr. Dow nurtured his creations.

The mechanics of the first stock average were dictated by the necessity of computing it with paper and pencil: Add up the prices and divide by the number of stocks. This application of grade-school arithmetic, while creative, is hardly worthy of remembrance a century later. But the very idea of using an index to differentiate the stock market's long-term trends from short-term fluctuations deserves a salute.

Without the means for ordinary investors to follow the market, today's age of financial democracy — in which millions of employees actively direct the investment of their own pension money and as a result are substantial corporate shareholders — would be unimaginable.

Following the introduction of the industrial average, Mr. Dow modified his original index, begun 12 years earlier, to create a 20-stock railroad average. It was renamed the transportation average in 1970. The Dow Jones Utilities Average came along in 1929, more than 25 years after Charles Dow's death at age 51 in 1902.

Edward D. Jones

At first, the industrial average was published irregularly, but daily publication in The Wall Street Journal began on Oct. 7, 1896. In 1916, the average was expanded to 20 stocks; the number of stocks rose again in 1928 to 30, where it remains.

Also in 1928, the editors of the Journal began calculating the average with a special divisor other than the number of stocks, to avoid distortions when constituent companies split their shares or when one stock was substituted for another. Through habit, this index was still identified as an "average."

Mr. Dow perceived well ahead of the crowd that America's industrial sector was emerging as a distinct part of the economy and that it would be of interest to investors, his readers.

There is no indication in his Journal editorials that Mr. Dow foresaw the rise of the greatest industrial power in the world, and the tall, taciturn journalist left hardly any personal records that might reveal his private thoughts.

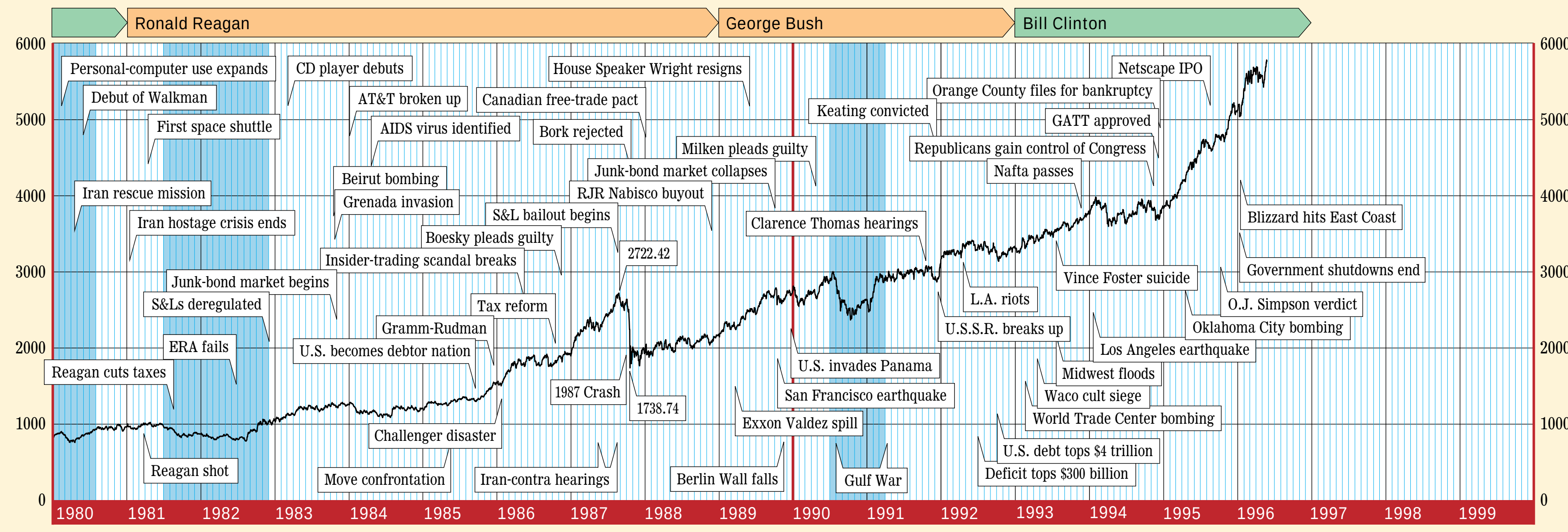
But he was acutely conscious of the rhythms of economic life because he lived when prosperity was regularly cut short by recessions and panics.

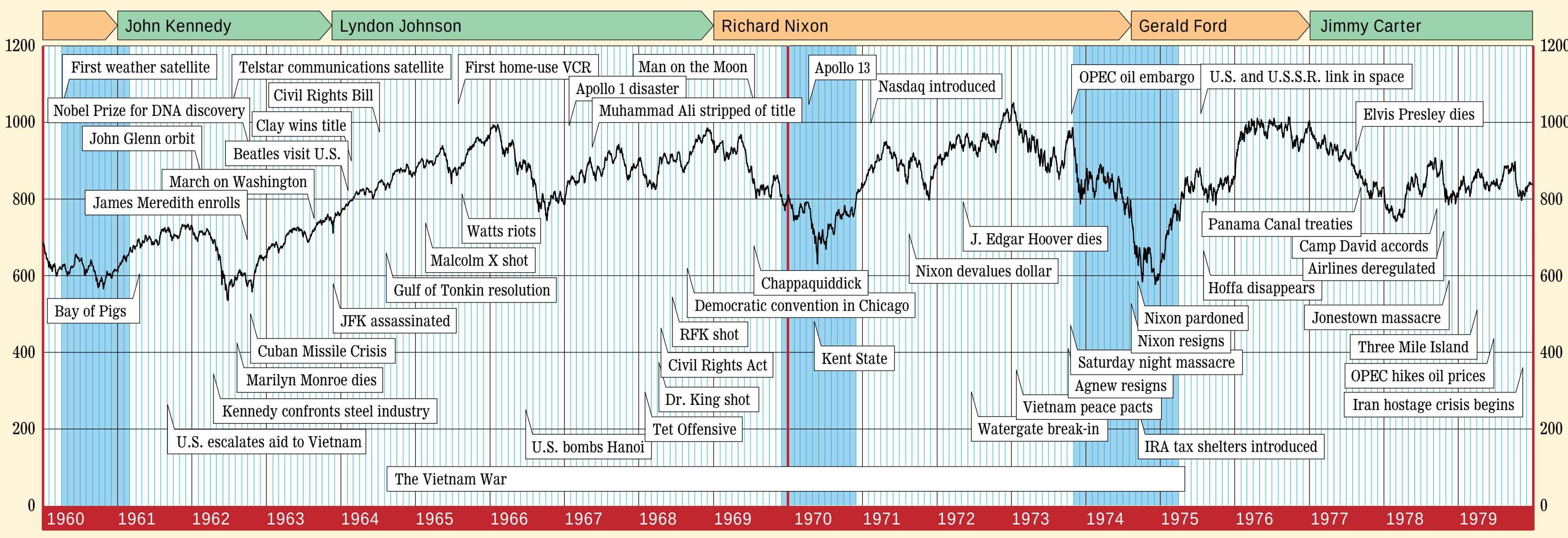
Business Cycles

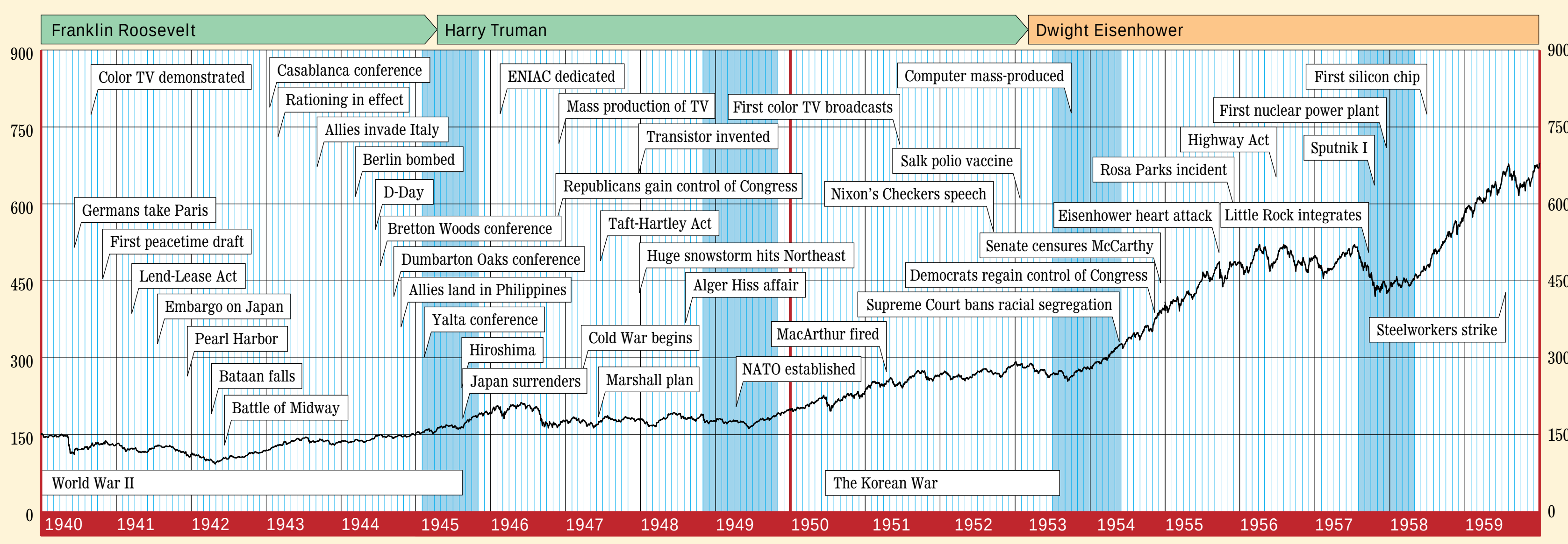
His prose, sometimes wooden, was at its best in describing the cycles of business, to him as inexorable and unalterable as forces of nature. For instance, he wrote in 1899 that when 75 million people shift "from feeling discouraged and doubtful to being confident and enterprising," the effect "is stupendous in its results upon all lines of business, including the stock market."

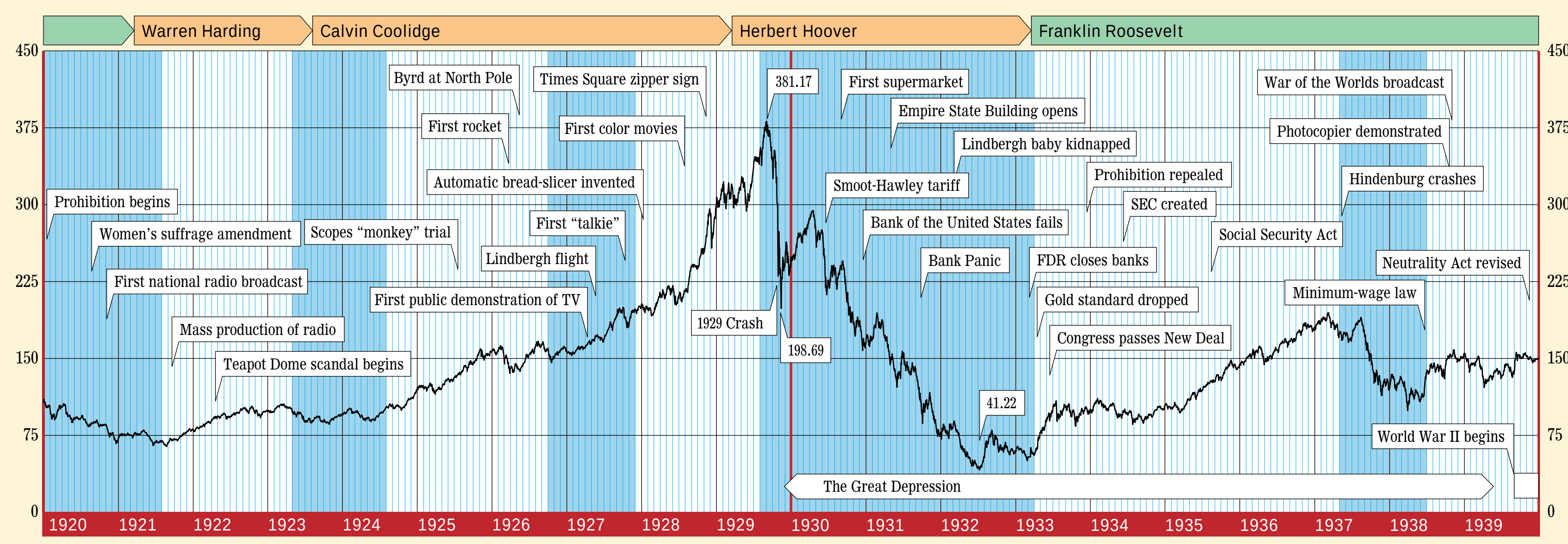
It has been that way ever since. As these charts demonstrate, the stock market responded energetically to the flowering of America's industrial might. The charts reflect the daily closing values of the Dow Jones Industrial Average from May 26, 1896, through May 24, 1996.

The line along the bottom and up the right side shows the industrial average from a centenary perspective; because of the heights scaled in recent years the early period appears relatively flat. For a closer look at the average as it was seen by investors in each era, the century is divided into five segments in which the day-to-day moves are clear and events are highlighted.









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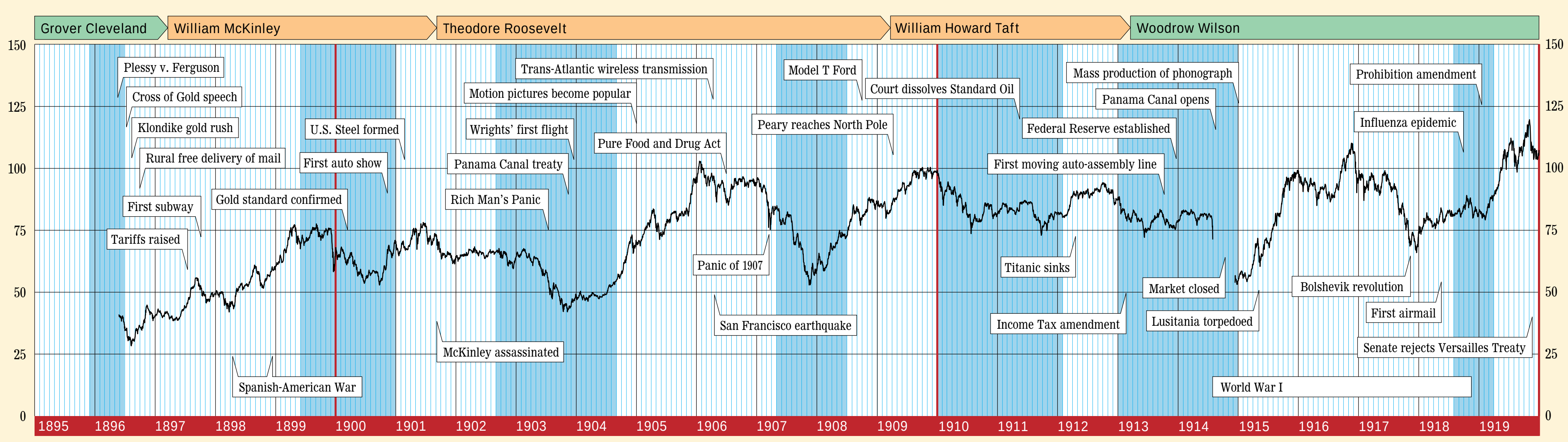

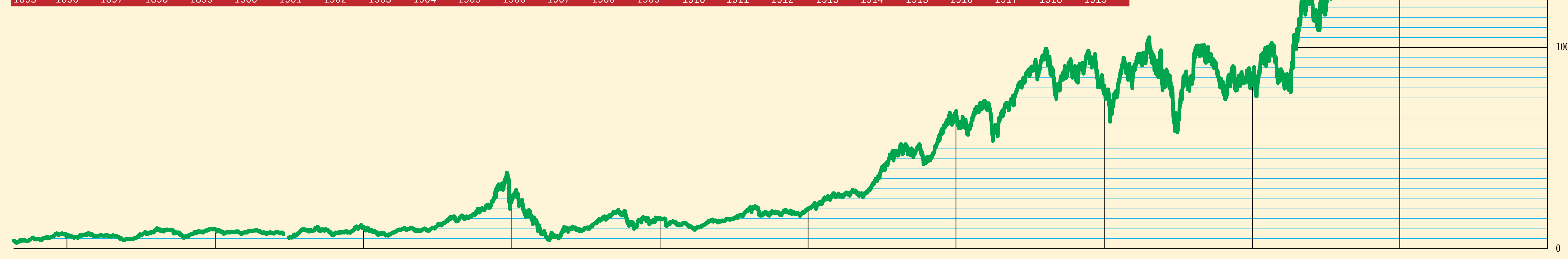

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