

San Francisco Chronicle
BUSINESS

Wednesday, October 4, 2006

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Richard Welty, Welty/Solari Capital Advisors

DOW HITS RECORD

OTHER INDEXES LAG:

Blue chips soar, but broader markets fall

Carolyn Said, Chronicle Staff Writer

Topping a record set during the frothy days of the dot-com boom, the Dow Jones industrial average closed at a new high on Tuesday.

The closely watched index, which consists of 30 blue-chip companies, ended trading at 11,727.34, surpassing the previous record of 11,722.98 set on Jan. 14, 2000. Earlier in the day, the Dow hit an intraday trading peak of 11,758.95, breaking the previous intraday record of 11,750.28, also reached on Jan. 14, 2000.

But the Dow was on its own Tuesday. Other major market indexes -- which include far larger numbers of stocks -- remain well below their peaks, despite recent gains. The Standard & Poor's 500 index closed 12.7 percent below the high it reached in March 2000. As for the tech-laden Nasdaq composite index, it's not even within hailing distance of a record, worth less than half of its dot-com-era high.

Weathering the plunge

In 2000, the Dow's glory didn't last long. Within three months of the January record, the dot-com bubble imploded, sending the stock market into a downward spiral that lasted years.

Since dot-com mania, the nation has been through a recession and recovery, suffered terrorist attacks on U.S. soil and plunged into war abroad. The economy has been pumped up by a real estate boom that is now softening. Wall Street has been buffeted by everything from soaring oil prices to corporate scandals such as Enron.

But in the past few years, corporations have enjoyed huge profits, interest rates have remained reasonable, inflation hasn't gotten out of control and unemployment has edged downward.

Many investors seem to have taken it all in stride and kept faith in the market.

"I go online every day and check to see how my investments are doing," said Merrilee Trost, 72, of Alameda. "They're as high as they've ever been right now."

That's particularly good news to Trost, who retired as a jazz publicist but still works part time to preserve her investment nest egg in case Ford Motor Co. cuts off the pension and health coverage she receives from her late husband's job.

"It's a little game. I try to earn as much money as I can so I don't have to interrupt my investments," she said. "I keep laughing and saying it's for my old age. I guard it carefully because you never know, especially these days, what's going to happen."

Unlike the S&P 500, which represents a broad cross-section of companies, the Dow comprises companies that share characteristics: long histories, consistent earnings and dividends, strong balance sheets. It is laden with familiar brand-name companies: Wal-Mart, Disney, Exxon Mobil, Boeing, Coca-Cola, General Electric, Home Depot. That means the Dow is a select group that does not really represent the stock market as a whole.

What's more, even though Microsoft, Intel, IBM and Hewlett-Packard are part of the index, the Dow is not loaded with technology companies the way Nasdaq is. That means that most Dow stocks weren't propelled into the stratosphere by dot-com mania at the beginning of the decade. For that reason, the Dow hasn't had to climb back as far to reach a record.

Even though the Dow is a special case, for many investors, a peak in the index remains an important psychological milestone.

A rising Dow "makes people feel better," said Kathleen Shay, a retired administrator in Livermore, who is involved with two local investment clubs, Money Makers and Ticker Tape Titans. "When it's down, a lot of people are disgusted and they don't join." And when the Dow is up, "members are more enthusiastic."

Not buying into it

But some individual investors take a contrarian view.

The Dow high "is based on fluff and there's no substance behind it," said David Seaborg, an evolutionary biologist in Walnut Creek. That's why he's kept his money out of the stock market in recent years. His rationale? "We have a tremendous trade deficit. We have a president who doesn't know how to deal with anything. The dollar is very weak. And Warren Buffett is investing more and more in foreign stocks. I am very pessimistic and bearish about the near-term future."

Instead of turning to Wall Street to make money, Seaborg said, he bought a house in Cottonwood, Ariz., as an investment property a year ago. Although the rental income falls \$300 a month short of expenses, the house has appreciated \$30,000 in 13 months.

By contrast, for professional investors, the Dow is not a touchstone.

"The Dow is somewhat narrow and can be skewed by certain events," said Richard Welty, president of Welty/Solari Capital Advisors, a Lafayette firm with \$65 million under management. "The S&P is a better index because it's so broad."

Still, he sees the Dow as blazing a trail for the broader market. His prediction is that the S&P 500 will hit a new high within 18 months.

Welty cautions that the stock recovery is limited, even within the Dow itself.

"Only 10 of the 30 Dow stocks are above their levels from January of 2000," he said.

The Dow's performance this year -- it has risen almost 10 percent -- rests heavily on the comebacks of companies that investors were shunning in late 2005.

"People thought General Motors was nearing bankruptcy" last year, Welty said. Now it is up 72 percent for the year. AT&T was considered a loser because of increased telecom competition. It's up 33 percent for the year.

Stock market 'works best'

Sue Larsen of Walnut Creek wears two hats. She is both an amateur investor, through the Rainmakers Investment Club in Walnut Creek, and a professional stock broker, managing \$10 million for about 50 clients, including herself. Now 42, she hopes to retire by age 50.

"What's worked best (for me) is the stock market," she said. "I own my own house, but when I look up my returns, the market is a better place for me to make investments."

Coached by her dad, she bought her first stock in Levi Strauss at age 10, tripled her money "and thought I had found the wheel," she said. "I was hooked ever since."

For her, a record-high Dow actually creates headaches.

"It just makes my job harder to find stocks that offer good value," she said. "I'm not the kind of investor who buys the market or a mutual fund that represents the market. A rising tide lifts all boats, stocks are going up because the whole market is going up, not necessarily because their earnings are increasing at a greater rate."

"It means you have to look harder to find values, whereas three months ago, there were really great values."

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