

## **Breakthrough or bust: Examining “Dow 20k”**

### **Dear Valued Clients & Friends:**

On March 29, 1999, the Dow Jones Industrial Average (the Dow) finished the trading day above 10,000 points for the first time since the index was first published in 1896. It wouldn't be until late 2010 that the Dow would (hopefully) see its last days under 10,000, over 11 years after initially cracking the five-digit threshold. For the past few months, the stock market had been hovering around the next big milestone—20,000 and, on January 25th, surpassed 20,000 for the first time. But how monumental of an achievement is “Dow 20k” for the stock market? Should we focus on it?

### **The (in)significance of milestones**

The Dow surpassing 20,000 has drawn significant attention from the media since late 2016, especially given the Dow's rapid growth after initially surpassing 19,000 in November. However, not all 1,000-point gains are created equal. From 1896 to 1972, the Dow grew from 40.94 to 1,000, which represented an increase of 2,343 percent. The Dow closing in the quadruple digits for the first time was indicative of the index's massive growth since its inception. The jump from 19,000 to 20,000 is an increase of only about five percent. Though the timeframe of this increase was incredibly short, the growth itself is (simply put) fairly unremarkable in the history of the index.

### **Enduring peaks and valleys**

Many investors have (or should have) a long-term investment strategy. Though it may be difficult, it is crucial to keep long-term goals in mind during a bear market or a bull market. For example, in September 1929, the Dow closed around 380, a record high at the time. Shortly thereafter, the stock market plummeted nearly 90 percent over the next few years in what was the largest economic panic in American history. The Dow wouldn't return to pre-Depression levels for 25 years. This demonstrates the market's volatility and reinforces that there is no guarantee the Dow will stay at or above any threshold.

## The impact of "Dow 20k"

It is unclear as to how the 20,000-point milestone will affect the stock market on a long-term scale. Some investors may view 20,000 as an indicator of an economy growing too quickly with an imminent slowdown on the horizon. Subsequently, this could result in a sell-off by bearish investors trying to time the market. Others may see it as a sign of a strengthening economy with more growth in store, resulting in even more capital invested in equities. Investors could, however, consider the milestone arbitrary and could result in no strong movement in either direction.

Above all the excitement, it's worth noting that the Dow is comprised of only 30 stocks. Within the Dow itself, certain stocks are weighted more than others. For example, stock from Goldman Sachs is weighted about eight times higher than some of the lowest-weighted stocks within the index. If one of the top stocks in the Dow, like Goldman Sachs, sees a large decline, it will drag down the entire index as a result. Because the Dow is heavily influenced by a few major companies, it might not accurately portray how the economy is performing on a larger scale.

## Takeaways

The fervor surrounding Dow milestones is likely rooted in psychology more than anything, as round numbers are appealing to investors because of the perceived significance of these benchmarks. So, what should our focus be on? Investors have a decision to make with any such milestone. Our advice is to remember that the best and only milestone that really rings true for you is not Dow 20K, but instead is when you reach your long-term financial goals. The real benchmark for success is progress towards your goals.

As always, we appreciate your business and stand ready to discuss and review any changes or updates in your personal situation. If someone you know would benefit from this newsletter, please feel free to pass it along. We look forward to continuing to serve you in all of your investment and planning needs.

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