

A Few Observations About the Dow's Latest Change

- ✘ General Electric Co.'s (**GE**) long run as a member of the Dow Jones industrial average will end on Tuesday morning. As you have probably already heard, the stock is being replaced by Walgreens Boots Alliance Inc. (**WBA**).



General Electric was an original member of the Dow, first added back in May 1896. According to S&P Dow Jones Indices senior index analyst Howard Silverblatt, the stock was briefly booted from the average in September 1898 before being added back seven months later in April 1899. Two years later, in 1901, it was kicked out again before being readmitted six-and-one-half years later in 1907. Now nearly 101 years later, the stock is being shown the door again.

Will it be added back again? We'll see. General Electric has evolved over the years and will likely continue to do so. In the meantime, there are problems that the company has to deal with. Profit margins have been declining, cash flow is negative and the debt-to-equity ratio is worsening. Plus, its dividend is in danger of being suspended.

None of this even touches on how the Dow is managed. While turnover is low—the last change occurred three years ago when AT&T Inc. (**T**) was replaced with Apple Inc. (**AAPL**)—the average is actively managed. [Continue Reading »](#)

AAll Model Portfolio Update

After conducting our quarterly review of the [Model Shadow Stock Portfolio](#), AV Homes Inc. (**AVHI**) was removed for violating the strategy's earnings rule. The company reported a trailing 12-month loss for two consecutive quarters. Replacing it is Universal Stainless & Alloy Products Inc. (**USAP**), which has been added to the portfolio.

The AAll Model Shadow Stock Portfolio, which is a real-money portfolio of micro-cap value stocks, gained 8.1% in May. The Vanguard Small Cap Index fund (**NAESX**) rose by 5.1% for the month, and the DFA U.S. Micro Cap fund (**DFSCX**) climbed 5.9%.

Since its inception in 1993, the AAll Model Shadow Stock Portfolio has a compound annual average return of 15.5% versus the Vanguard 500 Index fund's (**VFINX**) gain of 9.4% per year on average. Over the same period, the Vanguard Small Cap Index fund (**NAESX**) posted an average annual gain of 10.4%.

More on AAll.com

- [Market Barometers: A Look at Stock Indexes and How They Work](#) - This 2008 *AAll Journal* article explains the various weighting methodologies that indexes use.
 - [Dogs of the Dow Screen](#) - This simplistic strategy suggests buying the 10 members of the Dow Jones industrial average with the highest yields. Once General Electric is booted out, Johnson & Johnson (**JNJ**) should replace it as a "Dogs of the Dow" stock.
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Highlights from this month's *AAll Journal*

- [Tricking Investors With Merger-Related Accounting Shenanigans](#) - Accounting fraud expert Howard Schilit explains how companies use mergers to artificially boost revenues and hide past mistakes.
- [Hagstrom's Essential Buffett Stocks](#) - 25 stocks possessing characteristics matching the approach used by Warren Buffett.

AAll Sentiment Survey

Optimism pulled back, but remains above average (albeit barely). Pessimism rebounded back into its recent 1.5 percentage-point range. [More about this week's results.](#)

This week's results:

- Bullish: 38.7%, down 6.1 points
- Neutral: 35.1%, up 1.6 points
- Bearish: 26.2%, up 4.5 points

Historical averages:

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

Take the [Sentiment Survey](#).

What's Trending on AAll

1. [Guidance on How to Follow the Level3 Passive Portfolio](#)
 2. [The Top Mutual Funds Over Five Years: Tech Takeover](#)
 3. [Creating and Following a Real Financial Plan](#)
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The Week Ahead

The CFA Institute's exams will be given this Saturday. Good luck to all CFA candidates taking the six-hour exams.

We'll continue to get an early look at second-quarter earnings with 11 S&P 500 companies scheduled to report. Included in this group is Dow Jones industrial component Nike Inc. (**NKE**),

which will report on Thursday.

The week's first economic report will be May new home sales, released on Monday. Tuesday will feature the April S&P Corelogic Case-Shiller home price index and the Conference Board's June consumer confidence survey. May durable goods orders, May international trade and May pending home sales will be released on Wednesday. Thursday will feature the second revision to first-quarter GDP. Wrapping up the week, the June Chicago Purchasing Managers' Index (PMI), the University of Michigan's final June consumer sentiment survey and May personal income and spending for May will be released on Friday.

Four Federal Reserve officials will make public appearances: Atlanta president Raphael Bostic and Dallas president Robert Kaplan on Tuesday, Boston president Eric Rosengren on Wednesday and St. Louis president James Bullard on Thursday.

The Treasury Department will auction \$34 billion of two-year notes on Tuesday, \$16 billion of two-year floating rate notes and \$36 billion of five-year notes on Wednesday and \$30 billion of seven-year notes on Thursday.

Local Chapter Meetings

AII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AII members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you!

[Upcoming Meetings »](#)