

Dow 20,000 Shows How Bad We Are at Analyzing Numbers

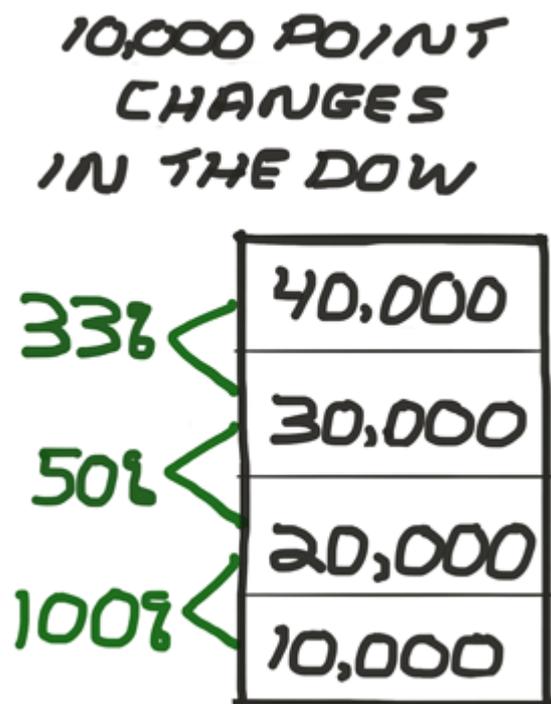


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AAll Journal Editor

All of the hoopla being given to the Dow Jones industrial average reaching 20,000 shows how bad we humans are at analyzing numbers. We're drawn to the number, because it is recognizable and easy to remember. It also looks big compared to previous milestones such as 5,000 or 10,000. Unfortunately, Dow 20,000 is a distraction from the actual rate of return.

Let me throw out some numbers to give you an idea of how easy it is to misconstrue numbers. I think it is reasonable to expect the Dow to cross above the 30,000 mark within 10 years from now. I further think it is reasonable to say that those who turned 65 this year will see Dow 40,000 in their lifetime based on the expected life-spans listed in the Social Security Administration's actuarial tables. If blessed with longevity, those who are currently 65 will see the Dow reach 50,000 or higher.

These sound like bold forecasts, don't they? If your mental benchmark is 10,000 or even lower (e.g., 5,000 or 1,000), my predictions of where the Dow is headed will seem very optimistic. There's a reason why. Our brains default to benchmarking to something we already know or have seen before. This pattern recognition works well for keeping us alive, but it doesn't work very well for managing our portfolios. It is also why we gravitate to nice round numbers. It takes less cognitive effort to remember when the Dow first rose above 10,000 than when it first crossed, say, 18,868.



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- **Charles Dow's Theory Still Valid for the 21st Century** - Dow theory uses the Dow Jones industrial average and the Dow transports to assess the market's direction.
- **Dogs of the Dow** - This screen seeks out the highest-yielding stocks in the Dow. Though the screen is updated monthly on AAll.com, the strategy itself calls for portfolios following it to be updated annually.

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to better prepare themselves for retirement, as compiled by Money Magazine.

- **The Individual Investor's Guide to Personal Tax Planning 2016** - Our new tax guide is now online, just in time for your year-end tax planning.

AII Sentiment Survey

Neutral sentiment rebounded from last week's two-year low, while bullish sentiment stayed above 40% for the sixth consecutive week. [More about this week's results.](#)

This week's results:

Bullish: 44.6%, down 0.1 points

Neutral: 26.2%, up 3.2 points

Bearish: 29.2%, down 3.2 points

Historical averages:

Bullish: 38.5%

Neutral: 31.0%

Bearish: 30.5%

Take the [Sentiment Survey](#).

What's Trending on AII

- **The Individual Investor's Guide to Personal Tax Planning 2016**
- **The Weiss Approach to Value in Blue-Chip Stocks**
- **Optimizing Your Retirement Income: What Works Best and Why**

The Week Ahead

The U.S. financial markets will be closed on Monday in observance of Christmas. The markets will also be closed on the following Monday, January 2, in observance of New Year's Day. On behalf of everyone at AII, I wish you a Merry Christmas, Happy Hanukkah and a healthy and prosperous New Year.

No members of the S&P 500 will report earnings next week.

The week's first economic reports will be the October S&P Case-Shiller home price index and the Conference Board's December consumer confidence survey, which will be released on Tuesday. Wednesday will feature November pending home sales. November international trade data will be released on Thursday. Friday will feature the December Chicago purchasing managers' index.

The Treasury Department will auction \$26 billion of two-year notes on Tuesday, \$13 billion of two-year floating rate notes and \$34 billion of five-year notes on Wednesday, and \$28 billion of seven-year notes on Thursday.



AAII Local Chapters

AAII 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 AAI 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! Click [here](#) for information on upcoming meetings.

AAII Members Receive Tax Guidance

The December *AAII Journal* features our popular tax guide. This annual guide helps investors stay up to date with the ever-changing tax regulations, includes last-minute reminders for 2016 and provides tax strategies for 2017.

It will help you understand your current tax liability and what you can do to potentially lower your tax bill this year and next year.

Start your AAI membership today to get The Individual Investor's Guide to Personal Tax Planning 2016, and to benefit from everything AAI has to offer.