

Dow Jones industrial average index research paper examples

[Finance](#), [Investment](#)



Abstract

This paper tries analyzing the Dow Jones Industrial Average, “ a price-weighted index of 30 blue-chip stocks, that has been a reliable indicator of stock market movement since October 1, 1928” (Bloomberg, 2012). An attempt has been made to study the evolution of the stock index over a 5-year period, focusing on the predominant changes it has undergone in terms of the trading volume, trends and also interest rate changes. The analysis revealed a somewhat erratic pattern of the stock index movement, as clearly depicted by a consistent and prolonged downtrend of the market index since the middle of 2007 most likely as a result of the global economic slowdown that emanated in that year, and then continuing with a much sharper fall into mid-2009, when the financial crisis was at its helm, before slowly starting to make an attempt get back on its feet and recording sluggish growth, as the economy begun to hit the bottom and started treading the road to recovery.

Keywords: Dow Jones Industrial Average Index, stock index movement, trends.

Dow Jones Industrial Average Index

The Dow Jones Industrial Average closed at “ 12, 820. 60 as on 11th May, 2012” (Yahoo Finance, 2012), indicating a slight decline of 1. 3% from the previous close of “ 12, 986. 80 on 12th May, 2008” (Yahoo Finance, 2012), over the 5 year long period that witnessed a number of globally relevant events, the prominent among them being the world financial crisis that

originated in U. S. in 2007-08, and quickly spread throughout the world, crippling most of the financial systems of the world by the end of 2008 and beginning of 2009, when it was at its pinnacle. This is evident from the chart below (Yahoo Finance, 2012) :

As clearly visible from the graph above, though the sub-prime mortgage crisis, as it is more widely known, gained momentum towards the beginning of 2008, but the level of intensity felt was not intolerable before that. In fact, a close look at the chart above shows that before Jan 7, 2008, in the year 2007, the index continued showing trends of minor and insignificant fluctuations, instead of any signs of either major rise or decline. However, post 2008 the index started witnessing a steep decline, as evident from the massively hit world economy, that could feel the excruciating pain in the form of expensive loans and increased borrowing costs due to rising interest rates that triggered decreased consumer spending, all of which was reflected in the continuously declining financial metrics displayed by the Dow, which “ fell 678. 91 points or 7. 3% to close at 8451. 19 in the first week of October, 2008, communicating a first time fall below 9000 in the last five years, with the recent one witnessed in August, 2003. Ironically, this was in direct contrast to the record-high figure of 14, 000 points on which the Dow had closed during the previous year” (Irvine, 2008). The fall akin to an unleashed chain reaction, did not end here, and continued till 2009, before closing at an all-time low of 6626. 94 on March 2, 2009 (Yahoo Finance, 2012). Thus, looking at the chart above, we can opine on a macro-level, that overall, starting from the end of 2007 and beginning of 2008, when the world

economy did start feeling the heat of the financial crisis, till the first quarter of 2009, the Dow Jones Industrial Average mostly witnessed a bearish trend, as evident from the consistently low closing price below the downtrend line. Though, the hefty federal bailout stimulus packages from the U. S. government and the rest of the world had already started flowing in, but life after 2009, was never the same for neither the world economy, especially the U. S. nor the Dow, which along with the other major U. S. indexes such as the Standard & Poor's & the Nasdaq though started witnessing a sluggish recovery, but it has taken it full 5 long years to reach the point from which it had started plunging initially. And even then, it has still not been able to touch that mark till now. In fact, " experts have started suggesting that we may be on the verge of a repetition of the 2008 crisis, going by some of the recent developments that have taken place. On Monday, Standard & Poor's downgraded the U. S. Government from its previously held AAA credit rating since 1941 to AA+ for the first time in the economic history. If this was not enough, then on Monday, the Dow fell 634. 76 points, depicting a 5. 5% plunge - the largest one day percentage decline since December 1, 2008. Even the stocks have plummeted by about 15% over the past two weeks. All these developments only point towards the decreased and shaky confidence level of the general public and the investor community in the U. S. government and financial system with respect to traversing of an unpredictable and risky territory, making us conclude that a lot more financial pain than what we have experienced so far is in store for us, thereby, making it imperative that we start preparing now for the hard time ahead" (A 634 Point Stock Market Crash And 8 More Reasons Why You

Should Be Deeply Concerned That The U. S. Government Has Lost Its AAA Credit Rating, 2011).

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