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# AMERICA'S M

**THE MOTLEY FOOL: ASK A FOOL**

## Dow has a numbers issue

### Q: What's the difference between the Dow Jones industrial average and the S&P 500?

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A: The Dow Jones industrial average is perhaps the most well-known stock index in the world, and milestones achieved by the index, such as the recent market rally to "Dow 20,000," are closely watched by the media. But the S&P 500 is a far better indicator of how the stock market is doing.

The Dow has two major flaws investors should be aware of. First, it only considers the performance of 30 companies — hardly a good representation of the 5,000-plus New York Stock Exchange and NASDAQ-listed stocks.

Second, the Dow is a price-weighted index, which means higher-priced stocks have more influence on the index's performance than lower-priced ones. For example, at about $230 per share, Goldman Sachs has more than seven times the impact on the Dow's performance as General Electric at about $30 per share, even though General Electric is nearly three times its size, by market cap.

On the other hand, the S&P 500 considers 500 large companies, as the name implies — almost 17 times as many as the Dow. More significantly, the S&P 500 is a market cap-weighted index, meaning larger companies have more influence over the index than smaller ones.