

Some Question Traditional Stock Market Indicator - Equity Analysis

The Dow Theory has been an indicator of the stock market for over 100 years, with a specific attention to transportation. It originated with a simple notion, that the Dow Transportation Index follows the Dow Jones Industrial Index. This is so because whatever the underlying 30 companies in the Dow Jones Index manufacture and produce, is ultimately shipped and transported to consumers and stores nationwide.

Market analysts have closely followed any disparities between the two indices for decades, trying to identify any lag or disconnect. Such a disparity has appeared recently, which may be an indicator of things to come.

The divergence between the DJTA and the DJIA can be significant for market analysts and investors. According to the Dow Theory, the performance of the transportation sector (DJTA) should confirm the trends seen in the industrial sector (DJIA). If the two indices diverge, it may signal potential economic issues. For instance, if the DJIA is rising while the DJTA is falling, it could indicate that goods are being produced but not transported at the same rate, suggesting a potential slowdown in economic activity.

As of May 29, 2024, the DJTA was at 14,781.56, down by 213.56 points or 1.42% from the previous close. This reflects a year-to-date change of -7.03% and a 1-year change of 6.32%.

The DJIA, in contrast, had a year-to-date change of -2% and a 1-year change of 16.16%. Historically, this disparity in returns is greater than it has been.

Various factors may create or alter the performance of the Transportation Index, such as elevated fuel costs, weather, or logistical issues. Another factor has evolved more recently, whereas we believe that the U.S. economy has transformed into a more service oriented economy with non tangible products such as software platforms, not needing physical transportation or delivery. Incidentally, the objective results of any disparities have become much more subjective as analysts deduce varying reasons for disparities.

Sources: Dow Jones, Bloomberg

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