

# Stock Market High

October 2006

The Dow Jones Industrial Average reached a new record high on October 3, 2006 by closing at 11,727.34, which beat out the old record of 11,722.98 set on January 14, 2000 by 4.36 points. Then another new record high was set on October 4, 2006 with the DJIA closing up 123.27 points at 11,850.61. What does all this mean to us as investors?

Let us look at the past high in 2000, the low in 2002 and the new high in 2006 to get a better understanding. The Dow was the first major index to reach its peak on January 14, 2000. The Russell 2000 peaked on March 9th and the NASDAQ on March 10th. The S&P 500 was the last to peak on March 27th.

The market low was October 9, 2002 for all indexes. The Dow fell 38% from the high of 11,723 to the low of 7,286. The Russell 2000 fell 46%, the S&P 500 49% and the NASDAQ a whopping 78%. The term “the bigger they are the harder they fall” results in the mathematical fact that the more you lose or fall, the more you need to get back up. The Dow needed a 61% gain in order to get back to its previous high from the October 9th lows. The Russell 2000 would need an 85% return, the S&P 500 a 96% return and the NASDAQ a 355% return to reach its previous highs.

Considering the Dow had the least amount to come back, you might expect it to be the first to reach a new high. That expectation would be wrong however, since the Russell 2000 reached a new high in November 2004. The Dow was the second to reach the new high, while the S&P 500 and NASDAQ have not.

The S&P 500 needs an additional 13% return to get to its high water mark. The NASDAQ needs an additional 120% return on top of the 106% that it has already gotten since the low. The 106% return since the low ranks second to the Russell 2000, which has returned 124% since October 9, 2002. The Dow is up 63% and the S&P 500 74%. That makes the Dow the poorest performer since its low.

How have the differing styles performed since the market peak and low? Using the Russell style indexes, small value represented by the Russell 2000 Value has returned 146% since the low. Small growth comes in second with a 119%

return with large value right behind at 117%. Large growth has been the poorest style with a 65% return. Looking at these numbers it is no surprise that the Russell 2000 was the first to

reach a new high. The Dow, which is constructed by 30 large cap stocks, and the S&P 500, which is weighted to the larger cap companies, has taken longer to return its previous highs. The NASDAQ Composite, which has been driven by the large technology stocks, has struggled.

Since the peak of March 27, 2000, the style returns paint a little different picture. Value has clearly ruled over growth. Small value has returned 151%, and large value 58%, while both growth style boxes have been negative with small growth returning -25% and large growth -40%.

An investor that had an equal weight and rebalanced to maintain that equal weight between the four style boxes would have had a 36% return since the peak and a 112% since the low. Diversification is the best way to reduce the volatility in the portfolio and in the long run enhance returns.

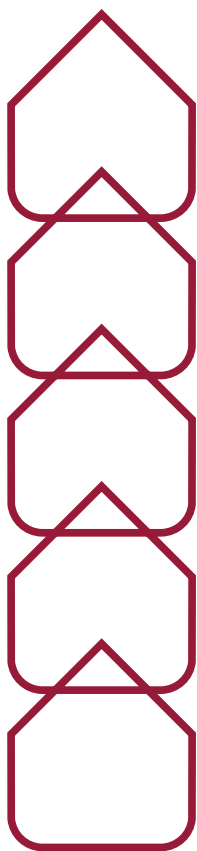
As a side bar, the Dow would have reached its previous peak in May of this year, if the Dow had the same component stocks that it did in 2000. Three stock, which represent 10% of the names in the Dow, were replaced on April 8, 2004. American International Group, Pfizer, and Verizon Communications replaced AT&T Communications, Eastman Kodak and International Paper. ■

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