

Arithmetic 101- Volatility

By Arthur Rosenberg

This is interesting. I ask a lot of people one simple question, "How are the Dow Jones Averages calculated?" I am focusing primarily on the Dow Jones 30 Industrials, but the method is the same for all of the DJ Averages. I have asked investment people, and many others who should know this, but so far there has only been one person who gave me the correct answer. I even remember watching CNBC a year or so ago when one of the "reporters" said after a day in which one stock went up or down a lot (I can't remember which). One of the reporters said she checked with DJ and was told that the stock only was 3% of the average. ALL NONSENSE!! It's really quite simple: The commonly known DJ Industrial Average was started in 1884 by Charles Dow. It consisted of eleven stocks in which the prices were added up and divided by eleven. Although the calculation was somewhat different during the first 44 years, on October 1st 1928 after various changes in the stocks which made up the average, they settled on 30 stocks. This is IMPORTANT since the average stayed consistently calculated as stocks were added, replaced, split, etc. by changing the divisor. For example, it would not be said that the average went down by 20 points because such and such stock split, instead they would just change the divisor so that the average today would be consistent with the average yesterday.

For example the divisor on November 5th 1928 was 16.02. The price of all 30 stocks would be added up and divided by 16.02 to determine the DJ Industrial Average. Therefore if *every* stock in the DJ 30 went up (or down) 1 point, it would be said that the average is up (or down) about 1.87 points. (30 points divided by 16.02.) As stocks split, the divisor would change. On December 13th 1928 General Motors split 2 1/2 for 1 and International Harvester split 4 for 1. On that day the divisor was changed from 16.02 to 14.65. Splits always make the divisor go down, but sometimes when stocks are replaced in the average with others, the divisor goes up. (E.g. a couple of months ago AIG was removed and replaced with Kraft Foods.) On August 8th 1976 the divisor was 1.473 and on August 9th Minnesota Mining & Manufacturing replaced Anaconda and the divisor went up to 1.504. Now follow me. On April 11, 1986 when Phillip Morris split 2 for 1, the divisor went down to 1.008. THIS MEANS OF COURSE IF EVERY STOCK IN THE AVERAGE WENT UP (OR DOWN) 1 POINT, THE AVERAGE WOULD GO UP OR DOWN 30 POINTS. One point is one point and has the same effect on the average if the stock sells at 10 or 100. The price of the stock doesn't matter. What does this have to do with *volatility*? Well today the divisor is about 0.125 (LESS THAN ONE). Therefore the calculation for the average if each of the stocks would *ALL* go up 1 point, the average would go up 240 points (30 points divided by 0.125 OR 30 points multiplied by 8).

Is there more volatility right now? Yes, of course. You can see the changes minute by minute. But now know that **one** of the reasons for the volatility is the calculation of the Dow Jones Averages. 22 years ago, a decline of 1 point in each of the 30 stocks in one day would give the result that the average declined by about 30 points in that day. That same one point change in each of the stocks today would result in a decline of 240 points in the average.

Now stump your stock market expert friends.

Looking to Save Money on Your Phone Service?

Yes, of course it can be done, and we'd like to try and help. Let's take a look at some old, and new stuff that is available. There are three basic methods of communication. First is your cell phone. There are various carriers and *many* different fee structures. (Make that *many many*.)

The second is just your ordinary home phone service, (called POTS- for Plain Old Telephone Service.) There are probably *even more* fee structures for that. Third, and fairly new, are the services that use VOIP (Voice Over Internet Protocol. This is NOT for dial-up internet service. You must have some sort of "high speed" internet service. This could be cable, FIOS, DSL, WI-FI, or almost any of the high speed services.

This is what I'll address here. Let's examine the VOIP service offered by your cable provider. Comcast gives you one line for \$40 per month (\$33 intro rate/mo. for 6 months) and basically is hooked up to replace your POTS phone system. No long distance charges to anywhere in the U.S.

Vonage, also a VOIP service, is what Steven has. It also replaces the POTS phone system, but is cheaper than Cable. The cost is about \$25 per month and includes free local and long distance calling to the US, Canada and some foreign countries. It hooks up to the ethernet jack (RJ45) on your cable box. Live in Phila and Florida? You can move it back and forth.

I happen to have a Magic Jack. This is probably the least expensive, but hooks up differently. I still have my POTS home service for incoming and local outgoing calls, but I use the Magic Jack for long distance outgoing calls from my home office (where I spend most of my waking hours). You hook it up yourself by plugging it into a computer's USB port. *The computer must be on.* Then you plug any phone (cordless, corded) into the Magic Jack and you are off and running. The cost is \$40 for the Magic Jack and the first year service. After that it is \$20 **PER YEAR, OR YOU CAN BUY 5 YEARS FOR \$60 TOTAL!!** You can call anywhere in the US and Canada for no charge. You can buy foreign minutes in \$5 increments. You can also call the US and Canada from *anywhere in the world*. For example, when Steven was in Italy last year he took it with him. He could call the office, me, or anyone else in the US or Canada for free from his hotel with his computer connected to the hotel's internet service. He just took a \$10 Radio Shack flip phone with him. It really was a money saver. Magic Jack also has all the free services like voice mail, three way calling, free 411 service, call forwarding etc.

(They do have awful commercials though.) If two people each have a Magic Jack, they can call each other to and from anyplace in the world.

In the event you receive voice mail, both Vonage & Magic Jack send you an email with the voicemail message attached. Steven can tell you more about his Vonage service and I can tell you a little more about Magic Jack.

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Important Change to RMD Withdrawals

A bill that was passed by Congress in November 2008 and signed by the President into law during the last week of 2008 changes the normal RMD (Required Minimum Distribution) from IRA's in 2009. Therefore you are NOT required to take your minimum distribution (if you are over 70 1/2) in 2009 AND you do not have to make it up later. This is only for 2009. In the year you reach 70 1/2 you must start taking your minimum distribution **for that year only** by April 1st of the following year. ***It is important to note that this legislation does not suspend RMDs that are due for 2008, including those due by April 1, 2009.***

Any questions, give us a call & speak with Arthur or Steven..