CNBC DJIA market movers top decliners portfolio

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ABSTRACT

A stock portfolio was chosen by using CNBC’s Dow Jones Industrial Average top five price percentage decliners. The five stocks were selected with price losses of 1% on February 6, 2017. Their price increases (decreases) were computed for 2017-18. The five stocks selected with daily price losses of 1% were Johnson & Johnson, Caterpillar, Intel, Visa, and Microsoft.

From 2017-8, the CNBC’S DJIA top stock price percentage decliners portfolio yielded 35% on average. Since the CNBC’s DJIA top stock price percentage decliners portfolio’s returns were impressive, the model could be used for selecting investments.

Keywords – stock, portfolio, investments, price, DJIA, model

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INTRODUCTION

A stock portfolio was chosen by using CNBC’s Dow Jones Industrial Average top five price percentage decliners. The five stocks were selected with price losses of 1% on February 6, 2017. Their price increases (decreases) were computed for 2017-18.

Related Literature

Numerous studies have been conducted to attempt to find ways of selecting the right stocks.

Articles have demonstrated that Value Line’s #1 timeliness rating could be used to pick above average returns.¹

Long-term studies have been conducted which show large company stocks, such as those listed on the NYSE, to underperform small company stocks.²

Dortman discovered investment advisory recommendations to be wrong. When 60 percent or more of the advisory services are bearish, an investor should expect stock prices to go up. Furthermore, when only 15 percent or fewer are bearish, investors should expect a market decline.³

Some studies have shown some publicly available information to be of value. Barron’s Confidence Index is cited of how trading in the bond market can precede stock prices. Barron’s Confidence Index equals the yield on 10 top-grade corporate bonds divided by the yield on 40 intermediate-grade bonds. As the Confidence Index approaches 100%, bond investors are not expecting a recession. Therefore, stock prices should be going higher.⁴

Short sales by specialists are a sign to divest.⁵

Just watching the Super Bowl is another way to pick stocks. Between 1967-97, when the National Football Conference (NFC) won, the stock market went up 22 out of 24 years. In years when the American Football Conference (AFL) won, the stock market went down 6 out of 7 years.⁶ Although, all of this was probably just a coincidence.

Buying merger and acquisition candidates can be rewarding. Researchers have consistently found above average returns for acquisition candidates.⁷ While approximately two-thirds of the price gain occurs before public announcement,⁸ returns of 15 percent or more may be available.⁹ Mandelker found that the acquiring company’s stock did not yield above average returns.¹⁰

Studies by Miller and Reilly,¹¹ Ibbotson, Sindelar, and Ritter,¹² and Muscarella and Vetsuypens,¹³ have indicated positive excess returns on new stock issues.

Research by Ying, Lewellen, Schlarbaum, and Lease suggested there are substantial profits to be made even after announcement of a new exchange listing, such as a stock going from trading on the over-the-counter market to the New York Stock Exchange (NYSE).¹⁴

Can stock repurchases be used to make money or not? Much of the early research said no.¹⁵ Other studies based on data from the 1970s and 1980s took a more positive viewpoint.¹⁶ Ikenberry, Lakonishok, and Vermaelen gave only a conditionally positive response.¹⁷ For value-oriented stocks with solid fundamentals, the average excess return was about 45% over a four-year time horizon. For high-flying glamour stocks, the returns were neutral to slightly negative.

Banz found small NYSE firms in terms of market capitalization (bottom 20%) to provide the highest returns.¹⁸ Reinganum discovered similar results.¹⁹

Peavy and Goodman argued that low P-E ratios yield high returns.²⁰

Studies have shown high beta stocks to outperform average and low beta stocks in market upturns and underperform them in downturns.²¹

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While research in this investment area is extensive, none of the previous work has selected companies by using CNBC DJIA top five stock price % decliners in attempting to select high portfolio returns.

METHODOLOGY

The five stocks selected with daily price losses of 1% were Johnson & Johnson, Caterpillar, Intel, Visa, and Microsoft (see Table 1). Their price increases (decreases) were computed for 2017-8.

Stock prices (shown in Table 1) were obtained online from the Yahoo! Finance. The price increase/decrease or rate of return/loss was measured as:

\[
\text{Rate of return} = \frac{\text{Ending price} - \text{Beginning price}}{\text{Beginning price}}
\]

As an example, Microsoft increased from $63.36 in 2017 to $88.43 in 2018 (see Table 1). Using the preceding formula:

\[
\frac{88.43 - 63.36}{63.36} = \frac{25.07}{63.36} = 40\%
\]

RESULTS

From 2017-8, the CNBC’S DJIA top stock price percentage decliners portfolio yielded 35% on average.

Conclusion

Since the CNBC’s DJIA top stock price percentage decliners portfolio’s returns were impressive, the model could be used for selecting investments.

Table 1 - CNBC DJIA market movers top decliners portfolio 35% average annual stock price increase

<table>
<thead>
<tr>
<th>Stock</th>
<th>Feb. 6, 2017</th>
<th>2017</th>
<th>2018</th>
<th>Annual Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johnson &amp; Johnson</td>
<td>-1</td>
<td>$112.70</td>
<td>$129.10</td>
<td>15%</td>
</tr>
<tr>
<td>Caterpillar</td>
<td>-1</td>
<td>92.59</td>
<td>149.96</td>
<td>62</td>
</tr>
<tr>
<td>Intel</td>
<td>-1</td>
<td>36.28</td>
<td>43.80</td>
<td>21</td>
</tr>
<tr>
<td>Visa</td>
<td>-1</td>
<td>85.70</td>
<td>117.71</td>
<td>37</td>
</tr>
<tr>
<td>Microsoft</td>
<td>-1</td>
<td>63.36</td>
<td>88.43</td>
<td>40</td>
</tr>
</tbody>
</table>

Average 35


5 Block and Hirt, p. 262.


9 Block and Hirt, pp. 276-8.


23 Dividends were excluded to expedite the research - does not materially affect comparison results (virtually nil for most stocks in the model and only an average of approximately 2% yield for DJIA and S&P 500).

24 However, past performance is no guarantee of future results.