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# Dow Jones v ASX200: It's like comparing apples with oranges!

Don Hamson | Plato Investment Management | 06 November 2013

Many people wonder why the Australian market has been lagging so far behind the US market this year. The US Dow Jones Index continues to set all time highs having passed its pre-GFC high in February this year. On the other hand, the Australian market hit a five year high on 12 September - but, at 5242, the S&P/ASX200 was still trading approximately 25% below its pre-GFC all time high of 6851.

Figure 1: Dow Jones vs S&P/ASX200


Source: Iress

But, surprisingly, when we converted the two indices to a common base, from 1 September 2003, they appear to be tracking almost in line with each other, as shown in Figure 2. The Australian market performed really well pre-GFC, spurred on by strong resources performance, but the US market caught up to it around two years ago. Since then, the two markets have been tracking each other. Over the 10-year time period, both indices were up

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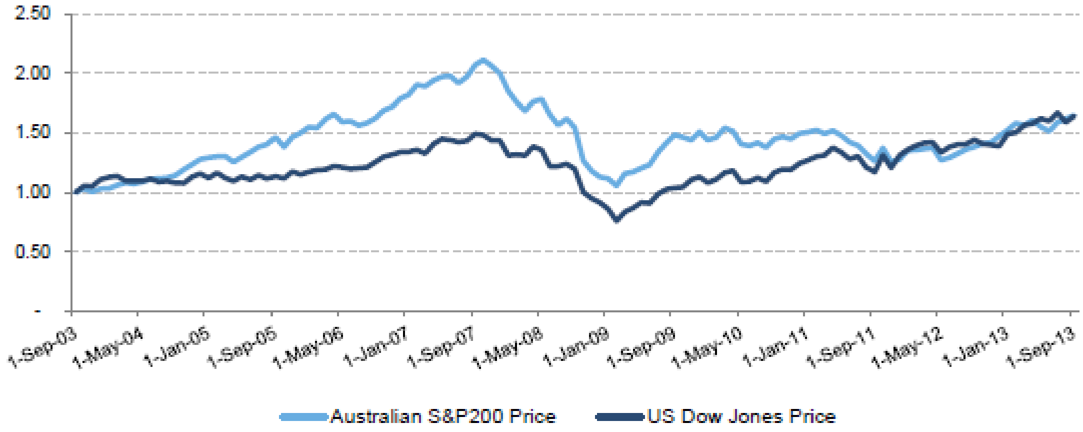
around 65%.

Figure 2: Dow Jones vs S&P/ASX200 in common base terms




Source: Iress. Common base 1 September 2003.

## ACCUMULATION INDICES INCLUDE DIVIDENDS

The two indices are only price indices – they only consider the value of share prices, completely disregarding any dividends received over the past 10 years. Share market indices that incorporate dividends and distributions paid by companies and trusts – accumulation or total return indices – reflect the actual returns that buy-and-hold investors would have received. Figure 3 charts the accumulated returns on the S&P/ASX200 and the Dow Jones when income is reinvested. On this total return basis, the higher yielding Australian market significantly outperformed the Dow Jones over the past 10 years. In fact, the differences are quite stark. The Australian market was up over 150% in accumulated terms, almost three times the price or capital return, clearly highlighting the importance of dividends. The Dow Jones accumulated return exceeded 110% over the same time period, highlighting the much lower returns from dividends in the US.

Figure 3: Dow Jones vs S&P/ASX200 Accumulation Indices in common base terms

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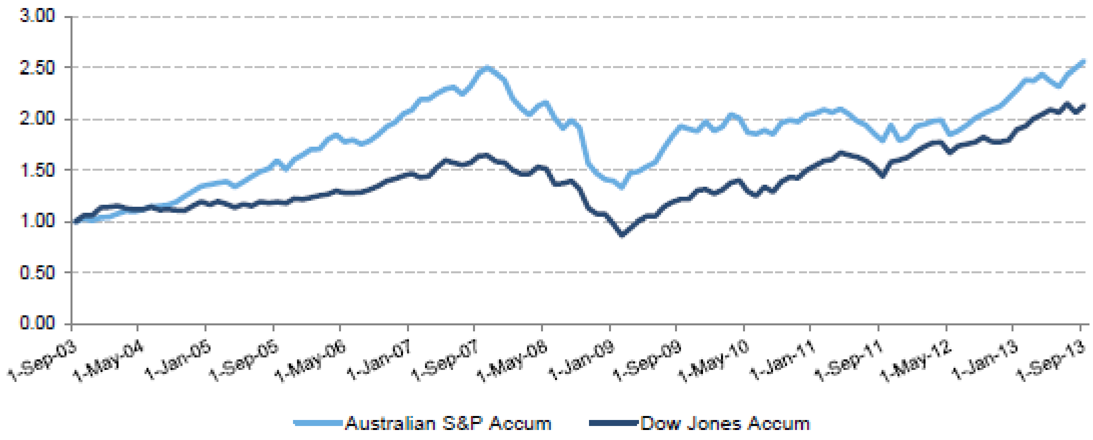


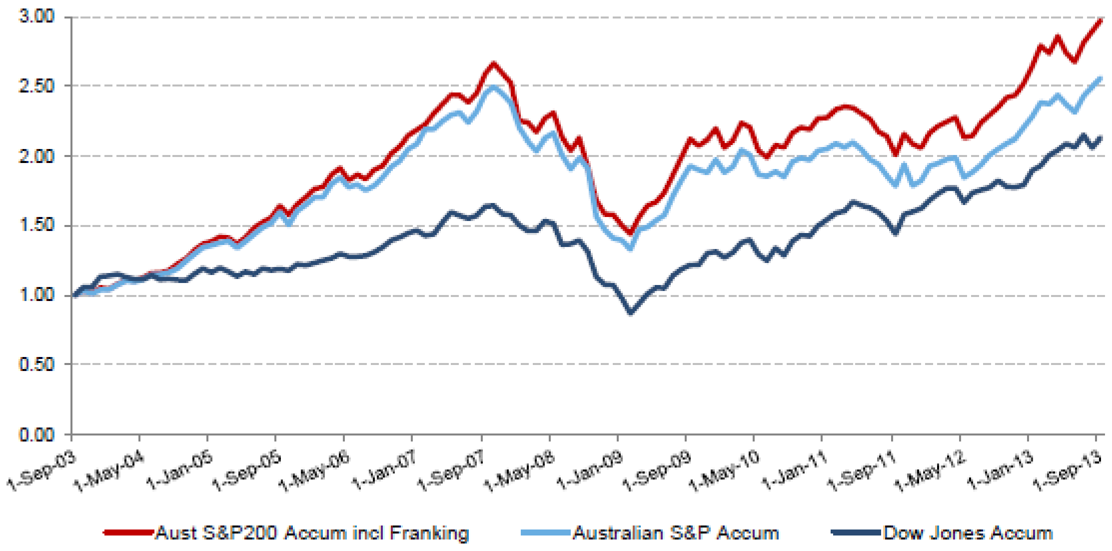

Source: Iress. Common base 1 September 2003.

## FRANKING CREDITS ADD MORE VALUE FOR LOW TAX INVESTORS

There's more upside for Australian investors, as Australian dividends often include franking credits for Australian company tax already paid by companies. Adding the value of franking credits further improves the returns expected to received by an Australian superannuation fund (note, Figure 4 assumes a pension phase superannuation fund which gets a full refund of all franking credits). Over the 10-year period shown, franking credits improved the accumulated return on the S&P/ASX200 by over 40%, highlighting both the value of franking and the power of compounding. Franking improved compound returns by approximately 1.7% per annum.

From Figure 4, it can be seen that the Australian market set high total returns, both excluding and including franking credits. In total return terms, buy-and-hold investors would have made up for all the losses incurred during the GFC.

Figure 4: Dow Jones vs S&P/ASX200 Accumulation indices including franking credits in common base terms

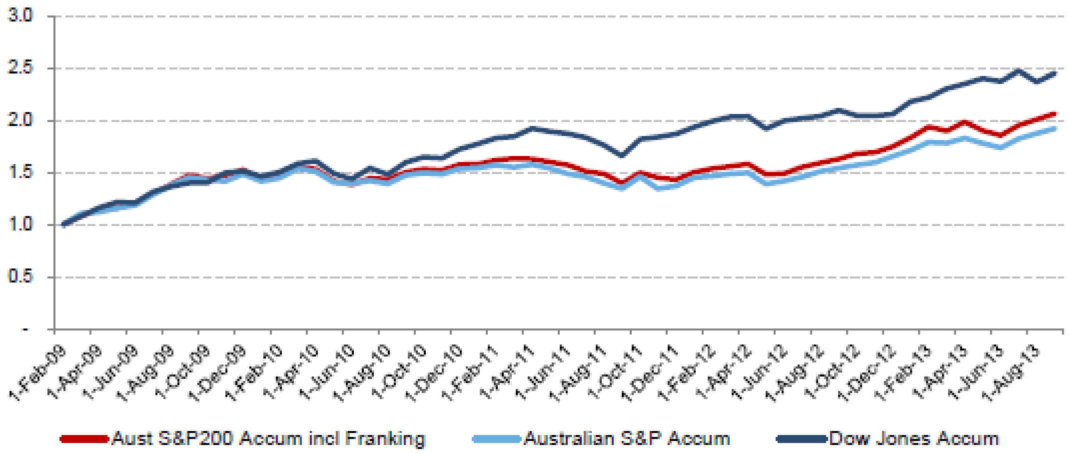



Sources: Iress, Plato. Common base 1 September 2003

## PERFORMANCE SINCE THE BOTTOM OF THE GFC

Many investors are still concerned that the Australian market has lagged the US Dow Jones since the bottom of the GFC. When we look at performance since February 2009, which was basically the bottom of the GFC, the Dow Jones outperformed the Australian index in accumulated terms quite handsomely, returning almost 150% compared to just over 100% for the Australian index (Figure 5).

Figure 5: Dow Jones vs S&P/ASX200 Accumulation indices including franking credits in common base terms
(Feb 2009 to Sep 2013)

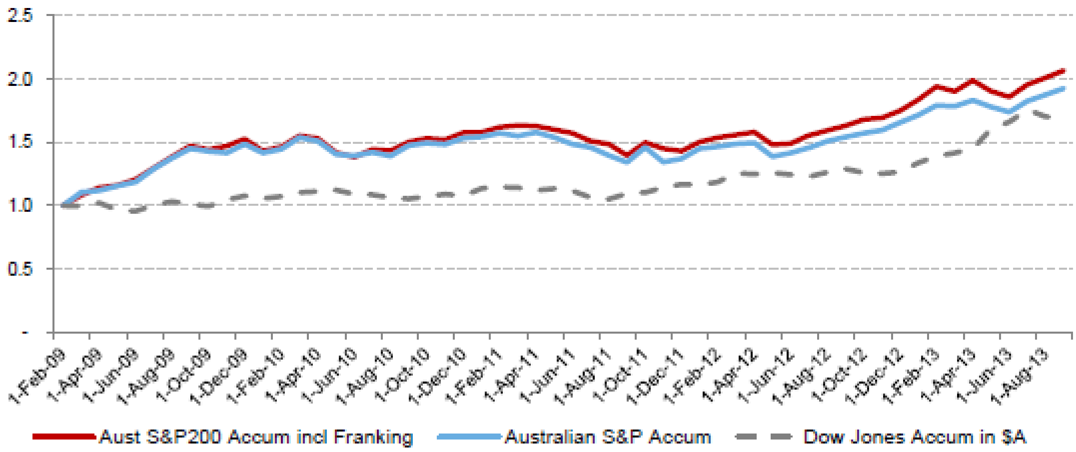



Sources: Iress, Plato. Common base 1 September 2003

## CURRENCY-ADJUSTED RETURNS

The last piece of the puzzle is currency. The Dow Jones returns presented so far have been in $US whereas the Australian market returns are in $A. Despite some recent weakness, the $A has significantly appreciated versus the $US negatively impacting the performance of overseas investments. When the US market is translated into $A (Figure 6), we see that the Australian market has outperformed since the bottom of the GFC. Over that time, the S&P/ASX200 including dividends and franking was up over 100%, while the Dow Jones including dividends was only up around 70% in $A terms.

**Figure 6: Dow Jones versus S&P/ASX200 Accumulation indices including franking credits in $A terms**
(Feb 2009 to Sep 2013)




Sources: Iress, Plato.

## CONCLUSION

Comparing the Dow Jones Price Index in $US to the Australian S&P/ASX200 Price Index in $A is like comparing apples with oranges.

Price indices don't tell you about total returns, omitting the important dividends. While the US Dow Jones price index continues to set new all time highs, this doesn't necessarily mean it is beating the Australian S&P/ASX200, which is still tracking well below its pre-GFC highs in share price terms. However, after including the value of dividends, the Australian market has set new all time highs in accumulation terms.

Looking at total returns to Australian investors in $A, the Australian S&P/ASX200 is actually ahead of the Dow Jones over the past 10 years and since the GFC market lows. Much of this outperformance is due to the much higher dividend yield of the Australian share market.

Finally, the icing on the cake for Australian superannuation investors, particularly pension phase super, is that the Australian index including franking credits is even further ahead.

Franking credits were worth an additional 1.7% per annum over 10 years, increasing total accumulated returns by approximately 40%.

When comparing returns, we suggest looking at total returns rather than price indices – and don't forget the value of franking on Australian shares.

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