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## July 2009 Quarterly Letter

*What is good for General Motors is good for the country.*

Charles E. Wilson, 1953

This famous aphorism is taken from the phrase uttered by Charles E. Wilson in his confirmation hearing as President Eisenhower's Secretary of Defense. During the course of the hearing, Mr. Wilson was asked, if as Secretary of Defense, he could make a decision adverse to the interests of General Motors. Wilson answered he could, but added he could not conceive of such a situation because "for years I have thought that what was good for the country was good for General Motors, and vice versa".

On June 1, 2009, the inconceivable happened. General Motors filed for bankruptcy. Its bankruptcy was brought about by years of mismanagement which left it inadequately prepared to deal with a very sharp economic downturn which is bad for the country and worse for General Motors.

Although current economic conditions in the United States are hardly optimal, the bankruptcy of General Motors did not cause the collapse of the country, far from it. The bankruptcy of General Motors occurred as the country seemed to be emerging from a deep recession.

Almost certainly, had General Motors filed for bankruptcy in 1953, it would have been evidence the country's economy was in the worst condition it had ever been. General Motors survived all of the economic events between its addition to the Dow Jones Industrial Average in 1925 and 2009. These events included the Great Depression, World War II, The Cold War and various other grim periods.

There are currently more than 4,000 stock averages in the world. Most of these are so obscure no one has ever heard of them. However, the Dow Jones Industrial Average is the one stock market average universally recognized worldwide.

Examination of the Dow Jones Industrial Average in 1925, 1953 and 2009 provides a broad insight into the remarkable growth and evolution of the American economy.

In 1925, the Dow Jones Industrial Average was at approximately 130. In early 1953, the Dow Jones Industrial Average was at approximately 290. On June 1, 2009, the Dow Jones

Industrial Average was at 8,721. This remarkable growth from 130 to 8,721 is reflective of the growth in Gross Domestic Product of the United States. Although statistics are not available for 1925, in 1929 at the height of the 1920's boom, the Gross Domestic Product of the United States was \$103.6 billion in current terms (i.e. adjusted for inflation). By 1953, it had reached \$379.4 billion in current terms. Remarkably, by 2008, the Gross Domestic Product of the United States had grown to \$14.3 trillion.

General Motors was added to the Dow Jones Industrial Average in 1925 when the Average consisted of these 20 companies:

American Can	American Tobacco	Texas Company
American Car & Foundry	General Electric Company	U.S. Realty
American Locomotive	General Motors Corporation	U.S. Rubber
American Smelting	International Harvester	U.S. Steel
American Sugar	Kennecott	Western Union
American Telephone	Mack Trucks	Westinghouse
& Telegraph	Sears Roebuck & Company	Woolworth

When Charles Wilson gave the testimony from which the famous aphorism arises, the Average consisted of these 30 companies:

Allied Chemical	General Electric Company	Proctor & Gamble Company
American Can	General Foods	Sears Roebuck & Company
American Smelting	General Motors Corporation	Standard Oil of California
American Telephone	Goodyear	Standard Oil (NJ)
& Telegraph	International Harvester	Texas Company
American Tobacco	International Nickel	Union Carbide
Bethlehem Steel	Johns-Manville	United Aircraft
Chrysler	Loew's	U.S. Steel
Corn Products Refining	National Distillers	Westinghouse Electric
Du Pont	National Steel	Woolworth
Eastman Kodak Company		

Although there are changes in the constituent companies, it is noteworthy that the character of the businesses of these 30 most prominent companies is little changed in almost 30 years. The most notable exception is the addition of United Aircraft. (No one had flown across the Atlantic Ocean in 1925, and many airplanes were still made of cloth and wood.)

The enormous changes which occurred in the American economy between 1953 and 2009 are reflected in the composition of the Dow Jones Industrial Average.

Subsequent to the removal of General Motors and Citicorp on June 8, 2009, the Dow Jones Industrial Average consists of:

3M Company	Du Pont	Kraft Foods Inc.
Alcoa Incorporated	Exxon Mobil Corporation	McDonald's Corporation
American Express Company	General Electric Company	Merck & Company, Incorporated
AT&T Incorporated	Hewlett-Packard Company	Microsoft Corporation
Bank of America Corporation	Home Depot Incorporated	Pfizer Incorporated
Boeing Corporation	Intel Corporation	Proctor & Gamble Company
Caterpillar Incorporated	International Business Machines	The Travelers Companies Inc.
Chevron Corporation	Johnson & Johnson	United Technologies
Cisco Systems, Inc.	J.P. Morgan Chase & Company	Verizon Company
Coca-Cola Company		Wal-Mart Stores Incorporated
		Walt Disney Company

Approximately one half of these 30 companies are in fields which either did not exist in 1953 or which were not considered of sufficient importance for Dow Jones & Company to place in its average.

Five of the companies in the current Dow Jones Industrial Average: Cisco Systems, Inc., Hewlett-Packard Company, Intel Corporation, International Business Machines and Microsoft Corporation are in a business, information technology, which was in its infancy in 1953, and did not exist in 1925. It hardly bears discussion that information technology plays a large part in the daily lives of people all over the world. The aggregate stock market value of these five companies is equal to 1.5 times the entire output of the American economy in 1953. \*

Three of the companies in the current Dow Jones Industrial Average represent the incredible advances in medical care which have occurred since 1953: Johnson & Johnson, Merck & Company, Incorporated and Pfizer Incorporated. These companies are leading manufacturers of pharmaceuticals, medical instruments and implantable prostheses.

Additionally, two companies in the current Dow Jones Industrial Average are in businesses which would have been considered so trivial in 1953 that to include them in an important Industrial Average would have been comical: Coca-Cola Company, a developer and licensor of flavored water based beverages, and McDonald's Corporation, a chain of hamburger stands (which did not exist in 1953). The combined stock market value of these two companies, which would not have been considered appropriate for the Dow Jones Industrial Average in 1953, is equal to nearly half the entire output of the American economy in 1953.

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\* All of these companies and most of the huge information technology industry are dependent upon a single device which was not invented until almost two decades after 1953: what we now call the "integrated circuit".

The inclusion of the Walt Disney Company is noteworthy. This demonstrates the remarkable growth in the wealth of consumers worldwide and their increasing leisure time.

Four of the companies in the current Dow Jones Industrial Average represent the enormous growth in the financial sector as the wealth of the developed world has grown: Bank of America Corporation, General Electric Company (Although in the Dow Jones Industrial Average long before 1925, now derives approximately half its revenues from GE Capital, its finance arm.), J. P. Morgan Chase & Company and The Travelers Companies, Inc.

Another major factor in the evolution of the Dow Jones Industrial Average, the rise in the index value and the enormous growth of real gross domestic product is many companies, and much of American business, are now international in scope. (For example, 80% of the Coca-Cola Company's revenues are earned outside of the United States.)

The growth and changes in the American economy in the 56 years since 1953 are truly astonishing. These changes have presented, and will continue to present, investors with enormous opportunities. New companies in newly emerging fields are coming to the fore every year.

The successful investor is both realist and optimist. He or she knows the future will be very different from the past and the future will be more prosperous.