Dow Dumps Kraft Foods

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NEW YORK (AP) — The Dow Jones industrial average is dumping Cool Whip for copays.

The Dow, perhaps the most widely known barometer of the U.S. stock market, announced Friday that it would boot Kraft Foods to make room for UnitedHealth Group, the insurance company.

The change takes effect Sept. 24. S&P Dow Jones Indices, which manages the average, said it was dropping Kraft because it is about to become a much smaller company after spinning off its North American grocery business.

The shuffle will not affect the level of the Dow, which closed Thursday above 13,500 and at a four-year high. The formula used to calculate the average is recalibrated every time a company is added or dropped.

Kraft, which also makes Cheez Whiz and the familiar blue-box macaroni and cheese, had a short shelf life on the Dow. It was added during the financial crisis in September 2008, replacing crippled insurer American International Group.

UnitedHealth Group was added because of health care's growing importance in the U.S. economy, said David Blitzer, chairman of the index committee. The Dow included drugmakers Pfizer and Merck but no companies focused on health insurance.

UnitedHealth stock jumped $1.38 in early trading to $55.27, but later in the day it fell back and was flat.

The Dow is made up of 30 stocks. A small committee, including the managing editor of The Wall Street Journal, which is owned by Dow Jones, decide which companies get added and dropped.

The purpose is to give investors an idea of how the entire stock market is performing. It's not operated like an investment portfolio, hunting stocks that will be most profitable.

The committee tries to choose companies that can remain on the index for a long time. For a 17-year stretch between 1939 and 1956, the makeup of the Dow didn't change. It went another 17 years without changes from 1959 to 1976.

Since it was born in 1896, the Dow has changed to reflect the engines of the economy, shedding agricultural companies and coal miners for banks and fast food. Of the Dow's 12 original stocks, only General Electric is still hanging around.

The last change was in June 2009, when a bankrupt General Motors and a hobbled Citigroup were kicked off. They were replaced by Cisco Systems, which makes computer networking equipment, and Travelers Companies, the insurance provider.

The Dow takes pride in being the oldest stock index, and maybe the best-known in popular culture, but it has critics. The Standard & Poor's 500 index, a much wider gauge of the market, is preferred by investing pros.

How the Dow works is also a matter of contention. Companies with a higher stock price — not necessarily a greater market value — have a bigger pull on the average.

A small percentage change in IBM, which trades above $200 a share, could move the Dow more than a giant percentage change at Bank of America, which trades at about $10.

Some have been pushing for the Dow to add red-hot technology stocks like Google or Apple. Blitzer told CNBC that the committee had "looked seriously at half a dozen stocks," but didn't give details.

On a conference call Friday morning, he told reporters that the stock prices of Google or Apple would likely distort the index because they would carry so much weight. Both are trading around $700 a share.

Besides, Blitzer said, technology companies are already well-represented on the Dow: "I don't see Intel, IBM and Hewlett-Packard as old and decrepit by any means," he said.

In an interview in April, John Prestbo, then of Dow Jones Indexes, said he always called companies to give them a heads-up if they were about to be kicked off. For the additions, the news is a surprise.

"They find out about it on the wire," he said, "like everyone else."

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