

# Stock market index (indices)



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Presented by:

# Stock market index – definition.

There are different “stock market indices”, such as Dow Jones Industrial Average, Nasdaq Composite Index, and others.

*Different stock market indices are basically **different groups of different stocks.***

*What does a market index do over time?*

**Each market index will follow collective performance of all stocks that are in it over a period of time, using particular metrics and methodologies.**



# Stock market index – definition.

Market stock indexes are collections or groups of different stocks selected to join the list (the portfolio).

*Think of a big basket full of different amounts of shares from stocks of different companies!*

*This does sound like “sectors” that we covered before - but stocks that join (or fall out of) an **index** are usually chosen based on their performance and market cap, not industry.  
Exceptions do apply though...*



# Stock market index – definition.

Market stock indexes are closely followed by both traders and investors to understand general market conditions, which affect individual stock performances.

Three market stock indexes that are most followed are:

**1) Dow Jones Industrial Average (DJIA)**

**2) Nasdaq composite Index (NQ)**

**3) S&P 500.**



# Stock market index – definition.

*Some market indexes track large portions of the market!*

*Some indices will include only largest cap stocks, or all stocks on a particular exchange, while some indices are more narrowly focused on fractions of market or even on emerging markets across the world.*

*It is not surprising that there are more than 5,000 indices today.*



# Index: *Dow Jones Industrial Average (DJIA)*

DJIA or simply DJ or Dow is a stock market index that tracks collective performance of selected 30 largest and most influential companies in the USA.

## Top 10 holdings in DJIA

### Top 10 Holdings

View Holdings as  

Name	% Holdings	Sector
<a href="#">Unitedhealth Group Inc</a>	9.38%	Health Services
<a href="#">Goldman Sachs Group, Inc.</a>	7.69%	Finance
<a href="#">Microsoft Corporation</a>	6.59%	Technology Services
<a href="#">Home Depot, Inc.</a>	6.51%	Retail Trade
<a href="#">Caterpillar Inc.</a>	6.19%	Producer Manufacturing
<a href="#">AMGEN Inc.</a>	5.02%	Health Technology
<a href="#">McDonald's Corp</a>	4.80%	Consumer Services
<a href="#">Salesforce Inc</a>	4.45%	Technology Services
<a href="#">Visa Inc - Ordinary Shares - Class A</a>	4.38%	Commercial Services
<a href="#">American Express Co.</a>	4.24%	Finance
Percent of Portfolio in Top 10 Holdings	59.25%	

No.	^ Ticker	Company	Sector	Industry	Country	Market Cap
1	<a href="#">AAPL</a>	Apple Inc	Technology	Consumer Electronics	USA	3448.29B
2	<a href="#">AMGN</a>	AMGEN Inc.	Healthcare	Drug Manufacturers - General	USA	171.76B
3	<a href="#">AMZN</a>	Amazon.com Inc.	Consumer Cyclical	Internet Retail	USA	1957.53B
4	<a href="#">AXP</a>	American Express Co.	Financial	Credit Services	USA	196.19B
5	<a href="#">BA</a>	Boeing Co.	Industrials	Aerospace & Defense	USA	95.51B
6	<a href="#">CAT</a>	Caterpillar Inc.	Industrials	Farm & Heavy Construction Machinery	USA	192.55B
7	<a href="#">CRM</a>	Salesforce Inc	Technology	Software - Application	USA	275.09B
8	<a href="#">CSCO</a>	Cisco Systems, Inc.	Technology	Communication Equipment	USA	210.51B
9	<a href="#">CVX</a>	Chevron Corp.	Energy	Oil & Gas Integrated	USA	275.69B
10	<a href="#">DIS</a>	Walt Disney Co	Communication Services	Entertainment	USA	172.56B
11	<a href="#">DOW</a>	Dow Inc	Basic Materials	Chemicals	USA	38.79B
12	<a href="#">GS</a>	Goldman Sachs Group, Inc.	Financial	Capital Markets	USA	156.37B
13	<a href="#">HD</a>	Home Depot, Inc.	Consumer Cyclical	Home Improvement Retail	USA	405.62B
14	<a href="#">HON</a>	Honeywell International Inc	Industrials	Conglomerates	USA	132.39B
15	<a href="#">IBM</a>	International Business Machines Corp.	Technology	Information Technology Services	USA	208.18B
16	<a href="#">INTC</a>	Intel Corp.	Technology	Semiconductors	USA	96.59B
17	<a href="#">JNJ</a>	Johnson & Johnson	Healthcare	Drug Manufacturers - General	USA	385.86B
18	<a href="#">JPM</a>	JPMorgan Chase & Co.	Financial	Banks - Diversified	USA	600.95B
19	<a href="#">KO</a>	Coca-Cola Co	Consumer Defensive	Beverages - Non-Alcoholic	USA	302.42B
20	<a href="#">MCD</a>	McDonald's Corp	Consumer Cyclical	Restaurants	USA	217.90B

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21	<a href="#">MMM</a>	3M Co.	Industrials	Conglomerates	USA	74.31B
22	<a href="#">MRK</a>	Merck & Co Inc	Healthcare	Drug Manufacturers - General	USA	278.25B
23	<a href="#">MSFT</a>	Microsoft Corporation	Technology	Software - Infrastructure	USA	3092.59B
24	<a href="#">NKE</a>	Nike, Inc.	Consumer Cyclical	Footwear & Accessories	USA	123.33B
25	<a href="#">PG</a>	Procter & Gamble Co.	Consumer Defensive	Household & Personal Products	USA	396.82B
26	<a href="#">TRV</a>	Travelers Companies Inc.	Financial	Insurance - Property & Casualty	USA	53.84B
27	<a href="#">UNH</a>	Unitedhealth Group Inc	Healthcare	Healthcare Plans	USA	545.93B
28	<a href="#">V</a>	Visa Inc	Financial	Credit Services	USA	549.16B
29	<a href="#">VZ</a>	Verizon Communications Inc	Communication Services	Telecom Services	USA	185.98B
30	<a href="#">WMT</a>	Walmart Inc	Consumer Defensive	Discount Stores	USA	650.62B

# Index: *Dow Jones Industrial Average (DJIA)*

DJIA companies are falling under the “blue chip” umbrella traded at NYSE.

Holdings Breakdown

View Holdings as  



Stocks

- 18.4% Finance
- 14.2% Technology Services
- 10.4% Retail Trade
- 10.1% Electronic Technology
- 9.2% Health Services
- 9.1% Health Technology
- 8.1% Producer Manufacturing
- 6.1% Consumer Services
- 5.0% Consumer Non Durables
- 4.3% Commercial Services
- 2.3% Energy Minerals
- 0.8% Process Industries
- 0.7% Communications

Bonds, Cash & Other

- 1.2% Other
- 0.1% Cash and Cash Equivalents

**Note: DJIA portfolio has approximately 25% of the US stock market value in total.**

# Index: *Dow Jones Industrial Average (DJIA)*



*DJIA portfolio has its own price that fluctuates depending on the prices of shares of each stock that is in the DJIA. Final DJIA price is sum of all prices per share of all stocks divided by special Dow Divisor (initially number of stocks in the DJIA).*

*In this example, the closed price per share was \$42,633.*

Note: DJIA puts more importance to stocks with higher prices.

# Index: *Dow Jones Industrial Average (DJIA)*

1) DJIA is widely accepted by investors to be the measure of stock performance in the USA.

2) The 30 companies that will constitute DJIA at any time point are selected by the editors of *Wall Street Journal*.

3) General electric (GE) was the longest participant in the DJIA basket (over a century!) and was removed in 2018.

4) Changes in the DJIA are usually reported as change in **points**, not dollars. Points are calculated by change in the \$ divided by the so called "Dow Divisor". Dow Divisor was introduced to offset the effects of events in individual stocks, such as stock splits. However, stocks with higher prices will have stronger effect on DJIA points than lower priced ones...



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# Index: *Nasdaq Composite Index (NQ)*

Simply put - NQ is a *stock market index* of all stocks that are traded on the Nasdaq stock exchange (more than 2,500 stocks).

Subset of NQ is NASDAQ 100 that includes largest and most actively traded companies. Daily average volume of shares traded has to be above 200,000 shares.

NASDAQ 100 excludes stocks that fall under the financial industry sector.



# Index: *Nasdaq Composite Index (NQ)*

These companies are mostly **technology stocks**, but include also stocks from consumer discretionary, insurance, finance, health, industrial and transportation sectors. They are domestic and international.

These companies are large and small caps.

NQ portfolio has more than 5,000 domestic and international stocks.



# Index: *Nasdaq Composite Index (NQ)*



*NQ portfolio has its own price that fluctuates depending on the prices of shares of each stock that is in the NQ. Final NQ price is defined by adding up market cap of all included assets based on their current price, which is divided then by a common divider.*

*In this example, the closed price per share was \$20,202.3.*

Note: NQ puts more importance to market capitalization.

# Index: *S&P 500*

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Simply put - S&P 500 is index of 500 leading companies in USA.

S&P 500 companies are selected based on large market cap, liquidity, float, sector, finances, and trading history. They represent broader economy.

Note: when the total market value of all 500 companies drops by 5%, the value of the S&P500 also drops by 5%.



# Index: *S&P 500*

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S&P 500 includes companies that have at least \$5.3 billion market cap, positive earning reports last four quarters, and it has to be US publicly traded company. So, it is focused on large caps.

Companies with larger market cap will affect S&P 500 price more than companies with smaller cap.

S&P 500 is considered by many as stock market's benchmark.



# Index: *S&P 500*



**S&P 500 portfolio has its own price that fluctuates depending on the prices of shares of all stocks in the S&P 500. Final S&P 500 price is defined by market cap of each company.**

*In this example, the closed price per share was \$5795.50.*

Note: S&P 500 puts more importance to market capitalization.

# Index: *Russell 2000*

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Simply put - Russell 2000 tracks 2,000 small cap companies publicly traded at US stock market

These companies have market capitalization between \$300 million to \$2 billion.

These companies have more volatile price movements.



# Index: *Russell 2000*

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Russell 2000 excludes stocks whose shares trade for price less than \$1 or if they are listed on pink sheets.

Russell 200 is considered by many as the benchmark for small to mid cap companies, and often as indicator of the economy health in the USA.

These companies have more volatile price movements.



# Index: *Russell 2000*



**Russell 2000 portfolio has its own price that fluctuates depending on the prices of shares of all stocks in the Russell 2000. Final Russell 2000 price is defined by last sale price and number of shares that can be traded of each stock included.**

*In this example, the closed price per share was \$2,359.04.*

Note: S&P 500 puts more importance to small market capitalization.

# Indices as benchmarks

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**Stock market indices** are often used as benchmarks to which performance many large investors will compare their own investment success (or failure).

For example, if their strategy and investments made 10% within a year while S&P 500 Index made 6%, we would say that their strategy and investment “beat the market”.

# Summary

Market indexes track collective performance of selected groups of assets.

Market indexes reflect market consensus of up-trend (bullish) or down-trend (bearish).

Three major market indexes in USA are DJIA, NQ, and S&P500 but there is more than 5,000 currently available out there!

