

Indices

An index is like a ruler. It is a way of measuring the performance, or price movement, of just about anything.

You'll see the plural of an index as both "indices" and "indexes".

In the financial world, indexes are created to track items such as publicly traded stocks, bonds, and consumer prices for common goods and services. Below are a few examples of indexes and what they measure. *Keep scrolling down to learn more about indexes.*

The DOW	S&P 500	S&P 400 Index	Russell 2000	Wilshire 5000
				
<p>Is an index that tracks 30 large, publicly owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ</p>	<p>An index of the 500 largest U.S. publicly traded companies. The S&P 500 is widely regarded as the best gauge of large-cap U.S. equities.</p>	<p>Investors who buy and hold mid-cap stocks are typically looking for long-term growth and the potential to outperform large-cap stocks in the long term.</p>	<p>Is an index measuring the performance of approximately 2,000 smallest-cap American companies</p>	<p>Is <i>the broadest stock market index of publicly traded</i> American corporations. It is often used as a benchmark for the entire (whole) U.S. stock market.</p>

Companies of the DOW 30

 Johnson & Joh... NYSE:JNJ \$111.14 \$-8.75 (-7.30%)	 UnitedHealth ... NYSE:UNH \$194.86 \$-11.73 (-5.68%)	 Microsoft NASDAQ:MSFT \$135.98 \$-1.37 (-1.00%)	 Intel NASDAQ:INTC \$49.58 \$3.75 (8.18%)	 ExxonMobil NYSE:XOM \$31.45 \$-1.29 (-3.94%)
 McDonald's NYSE:MCD \$137.10 \$-11.39 (-7.67%)	 Verizon Comm... NYSE:VZ \$50.31 \$-1.49 (-2.88%)	 Caterpillar NYSE:CAT \$91.85 \$-3.65 (-3.82%)	 Goldman Sachs NYSE:GS \$134.97 \$-3.44 (-2.49%)	 Boeing NYSE:BA \$105.62 \$10.61 (11.17%)
 3M NYSE:MMM \$117.87 \$-7.02 (-5.62%)	 IBM NYSE:IBM \$94.77 \$0.62 (-0.65%)	 Home Depot NYSE:HD \$162.39 \$10.24 (6.73%)	 The Travelers ... NYSE:TRV \$88.36 \$-1.15 (-1.28%)	 Coca-Cola NYSE:KO \$37.56 \$0.74 (-1.93%)
 JPMorgan Chase NYSE:JPM \$79.03 \$-4.47 (-5.35%)	 Cisco Systems NASDAQ:CSCO \$34.60 \$-1.00 (-2.81%)	 Pfizer NYSE:PFE \$28.49 \$0.52 (-1.79%)	 General Electric NYSE:GE \$6.11 \$0.41 (-6.29%)	 Nike NYSE:NKE \$62.80 \$-4.65 (-6.89%)
 Chevron NYSE:CVX \$54.22 \$-5.17 (-8.71%)	 DowDuPont Inc. NYSE:DD \$28.57 \$-2.98 (-9.45%)	 Walt Disney NYSE:DIS \$85.76 \$0.22 (-0.26%)	 American Expr... NYSE:AXP \$68.96 \$-5.16 (-6.96%)	 United Technol... NYSE:UTX \$74.95 \$-7.58 (-9.18%)
 Visa NYSE:V \$135.74 \$-11.09 (-7.55%)	 Walmart Inc. NYSE:WMT \$114.28 \$0.31 (0.27%)	 Procter & Gam... NYSE:PG \$97.70 \$-4.73 (-4.62%)	 Merck & Co. NYSE:MRK \$66.40 \$-4.96 (-6.95%)	 Apple NASDAQ:AAPL \$224.37 \$-4.87 (-2.12%)

Here Is an Example of How an Index Works

- Suppose we created an index to track the price of a gallon of milk.
- When we start tracking let's say milk costs \$2.00 a gallon.
- The starting index value is 1.
- When milk goes to \$2.50, our index goes to 1.25, which reflects a 25% increase in the price of milk.
- If milk the goes to \$2.25, the index goes to 1.15. The .10 change reflects a 10% decrease in the price of milk.

If you were a milk dealer you might find a milk index useful. Instead of going to the store each day to write down the prices of each competitor's milk and averaging them together, the index would provide that data for you.

Stock market indexes are used by traders, economists, and academics, but each uses the information in a different way.

For the average person, the day to day change in the stock market should have no relevance to their life, so why pay attention? I don't know. Maybe people pay attention because the media focuses so much attention on the day-to-day change in indices like the S&P 500 or Dow Jones.

Most people should develop a long-term investment plan that uses index funds, which own all the stocks listed in an index, and they should leave their investments alone for years and not obsessively watch the market.

How You Can Actually Use an Index

Sometimes its hard to know how well your portfolio or financial adviser is performing. You might hear numbers like 3%, 5% or 10% growth but what does that really mean? Are those good numbers? The answer is--it depends.

Some years the investment markets have a great year and go up by double-digit percentages. Other years, those same markets might have a year of 1% growth or even declines. You should measure the performance of your portfolio or financial adviser against an index. You might compare your stock portfolio to the S&P 500. If that index rose 9% in a certain year, you might expect your stock portfolio to rise 6% or more. (Most portfolios are a little more conservative than the index and there are some fees involved.)

If your portfolio outperforms the index, congratulations, but if your portfolio consistently underperforms the index by a large margin, ask some questions. Every portfolio will have years where they outperform or severely underperform an index. You should only be worried if it underperforms over multiple years. Don't just look at the percentage gain or loss as a

judgement on performance. The only way to truly gauge the performance of your portfolio is to compare it against the correct index.