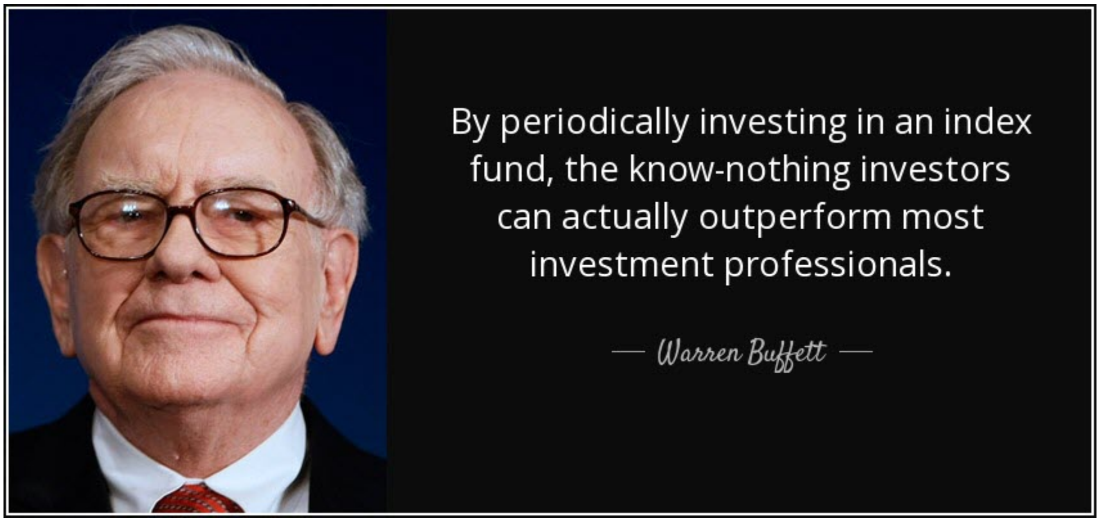
InterAnalyst
Invest. Grow. Protect.

Wisdom…



The S&P500 Index

If you had to use a single quantity to indicate the strength of the economy, what would it be?

The consumer confidence index is too subjective. The unemployment rate overstates under-the-table workers and understates discouraged workers. Even though the Dow Jones Industrial Average is the best known and most quoted stock index in the world, it's so selective as to be misleading. Comprised of only 30 stocks, the Dow is less representative of the economy as a whole than are several other indices. Paramount among those is the S&P 500, the daily *de facto* numerical indicator of the U.S. economy. While the S&P 500 gets second billing even in the financial media, and little recognition elsewhere, its importance is vital.

What's in a Name?

First, the etymology of the term. "S&P" is Standard and Poor's. Henry Poor was a 19th century financial analyst who compiled an annual book that listed publicly held railroad companies. His publication merged with those of the "Standard" Statistics Bureau in 1941. And "500" is the number of stocks that comprise the index.

That's it. The index includes 500 of the largest (not necessarily *the* 500 largest) companies whose stocks trade on either the NYSE or NASDAQ. Like popes and Oscar winners, the components of the S&P 500 are selected by committee. And, like the College of Cardinals and the Academy of Motion Picture Arts & Sciences, the S&P 500 committee operates within specific criteria. To qualify for the index, a company must have:

- a market cap of $5.3 billion
- its headquarters in the U.S.
- the value of its market capitalization trade annually
- at least a quarter-million of its shares trade in each of the previous six months
- most of its shares in the public's hands
- at least half a year since its initial public offering
- Four straight quarters of positive as-reported earnings.

Between them, the NYSE and NASDAQ list 5,900 companies. But the first criterion alone reduces that number to 975, and eliminates such famous names as AOL Inc (AOL) and Tupperware Brand Corp. (TUP). Add a few more benchmarks, and it's easy to see how the S&P can get down to 500 large-cap stocks suitable for inclusion.

Complex Math

Unlike the Dow, which you calculate by just adding up the prices of the component stocks and multiplying by a constant, the S&P 500 is more complex. Instead of adding the constituents stocks' prices, the S&P 500 adds the companies' float-adjusted market capitalization. "Float-adjusted" means counting only the shares available to us ordinary folk, excluding those held by management, by governments and by other companies. There are hundreds of ostensibly "publicly traded" companies that keep most of their shares in-house.

Shown the Door

With so many components, and such stringent criteria, the S&P 500 is dynamic and has little patience for slackers. United States Steel Corp. (X), one of the stalwarts of 20th century industry, had been listed on the S&P 500 since its inception. In fact, at one-point U.S. Steel was the largest company in the world. Alas, it hasn't turned a profit in years. When it fell below the $4 billion threshold in 2013, the index booted it out and made room for Martin Marietta Materials Inc. (MLM), a construction aggregate producer.

The Bottom Line

For the most part, the S&P 500 doesn't convey information that differs drastically from comparable indices. It largely correlates with the more exclusive Dow, and the more inclusive Russell 2000. On balance, the S&P 500 is the index of indices — the bellwether indicator that shows the possible presence of a trend. The performance of the economy and financial markets.

Other than those available in your retirement plan, here's a list of tradable S&P500 funds.

The Dow Jones Industrial Average Index

Named after the index's founder Charles Dow and his business partner Edward Jones, the Dow Jones Industrial Average was designed to serve as a proxy for the broader U.S. economy. When the index launched, it included just 12 companies that were almost purely industrial in nature. The first components operated in railroads, cotton, gas, sugar, tobacco and oil. General Electric is the only one of the original Dow components that is still a part of the index in 2018.

As the economy changes over time, so does the composition of the index. The Dow typically makes changes when a company experiences financial distress and becomes less representative of the economy, or when a broader economic shift occurs and a change needs to be made to reflect it.

How the Index Is Calculated

The Dow is a price-weighted index. This means stocks with higher share prices are given a greater weight in the index. At the Dow's inception, Charles Dow calculated the average by adding the prices of the 12 Dow component stocks and dividing by 12. Over time, there have been additions and subtractions to the index, such as mergers and stock splits that had to be accounted for in the index. When one of these events occurs, the divisor for the Dow gets adjusted so the index's value does not become affected. This is why the Dow can stand at 17,000 while the sum total of the components' stock prices is nowhere near that number.

Changes to the Index Over Time

The index grew to 30 components in 1928 and has changed components a total of 51 times. The first change came just three months after the index was launched. In its first few years until roughly the Great Depression, there were many changes to its components. In 1932, eight stocks within the Dow were replaced. However, during this change, the Coca-Cola Company and Procter & Gamble Co. were added to the index, two stocks that are still part of the Dow in 2018.

The most recent large-scale change to the Dow took place in 1997 when four of the index's components were replaced. Two years later, in 1999, four more components of the Dow were changed. The most recent change took place on June 26, 2018, when Walgreens Boots Alliance, Inc. replaced General Electric Company.

Other than those available in your retirement plan, here’s a tradable DJIA fund.

Russell 2000 Index

The Russell 2000 index is an index measuring the performance of approximately 2,000 small-cap US companies. The Russell 2000 serves as a benchmark for small-cap stocks in the United States.

BREAKING DOWN Russell 2000 Index

The Russell 2000 index is a commonly used benchmark for mutual funds that identify themselves as "small-cap," much like the S&P 500 index is used to benchmark large capitalization stocks.

Mutual fund investors favor the Russell 2000 index because it reflects the investment opportunity presented by the entire market rather than opportunities offered by narrower indices, which may contain bias or more stock-specific risk that can distort a fund manager's performance. Many mutual funds and ETFs are tied to or based on the Russell 2000.

It is also the most widely quoted measure of the overall performance of small-cap to mid-cap stocks. As of December 31, 2017, the average value for a company on the Russell 2000 is $2.4 billion. Many regard the Russell 2000 as an important bellwether of the American economy because it measures the performance of smaller, domestically focused businesses.

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Russell 2000 Index vs. Other Market Indices

Unlike the Dow Jones Industrial Average, the Russell 2000 index is weighted by shares outstanding. This means that a member stock's last sale price as well as the number of shares that can actually be traded (rather than the company's full market capitalization) influence the index.

Other than those available in your retirement plan, here's a list of tradable Russell 2000 funds.

Nasdaq Composite Index

The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

BREAKING DOWN Nasdaq Composite Index

The Nasdaq Composite is not limited to companies that have U.S. headquarters – something that sets it apart from a number of other indexes. It is very common to hear the closing price of the Nasdaq Composite Index reported in the financial press or as part of the evening news because it is such a broad-based market index.

Nasdaq Methodology

The Nasdaq Composite Index uses a market capitalization weighting methodology. The index's value equals the total value of the share weights of each of the constituent securities, multiplied by each security's last price. This total is then adjusted by dividing by an index divisor, which scales the value to a more appropriate figure for reporting purposes. The index is calculated continuously throughout the trading day, but it is reported once per second, with the final confirmed value being reported at 4:16 p.m. each trading day.

Two versions of the Nasdaq Composite Index are calculated: a price return index and a total return index. The total return index includes the reinvestment of cash dividends on their respective dividend ex-dates. Both versions of the index include non-dividend cash distributions. On the market close of Sept. 24, 2003, both versions of the index were synchronized.

Changes in price due to corporate actions such as stock splits, stock dividends or spinoffs are made on the action's ex-date. Changes in total shares outstanding due to items such as conversions, stock repurchases, secondary offerings or acquisitions are usually made on the night before the action's effective date.

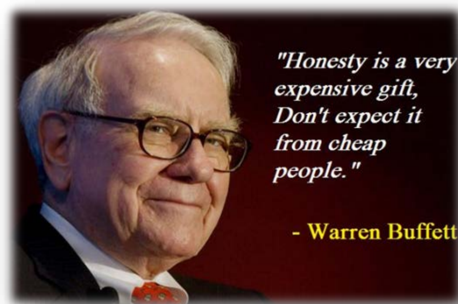
Eligibility requirements for the index are reviewed throughout the year. A security that does not meet the eligibility requirements can be removed at any time, usually at its last sale price.

Other than those available in your retirement plan, here's a list of tradable Nadaq funds.

Safer, Lower Cost, More Diversified, Faster Growth Than 97% Of Professional Advisors

1. 40% S&P500 = 500 Largest/Best US Companies (Self Perfecting)
2. 20% Dow - 30 Largest/Best Industrial US Companies (Self Perfecting)
3. 20% Nasdaq - 3300 Largest/Best Technology Global Companies (Self Perfecting)
4. 20% Russell 2000 - 2000 Best Small/Medium Size US Companies (Self Perfecting)

Benefits of every dollar invested:

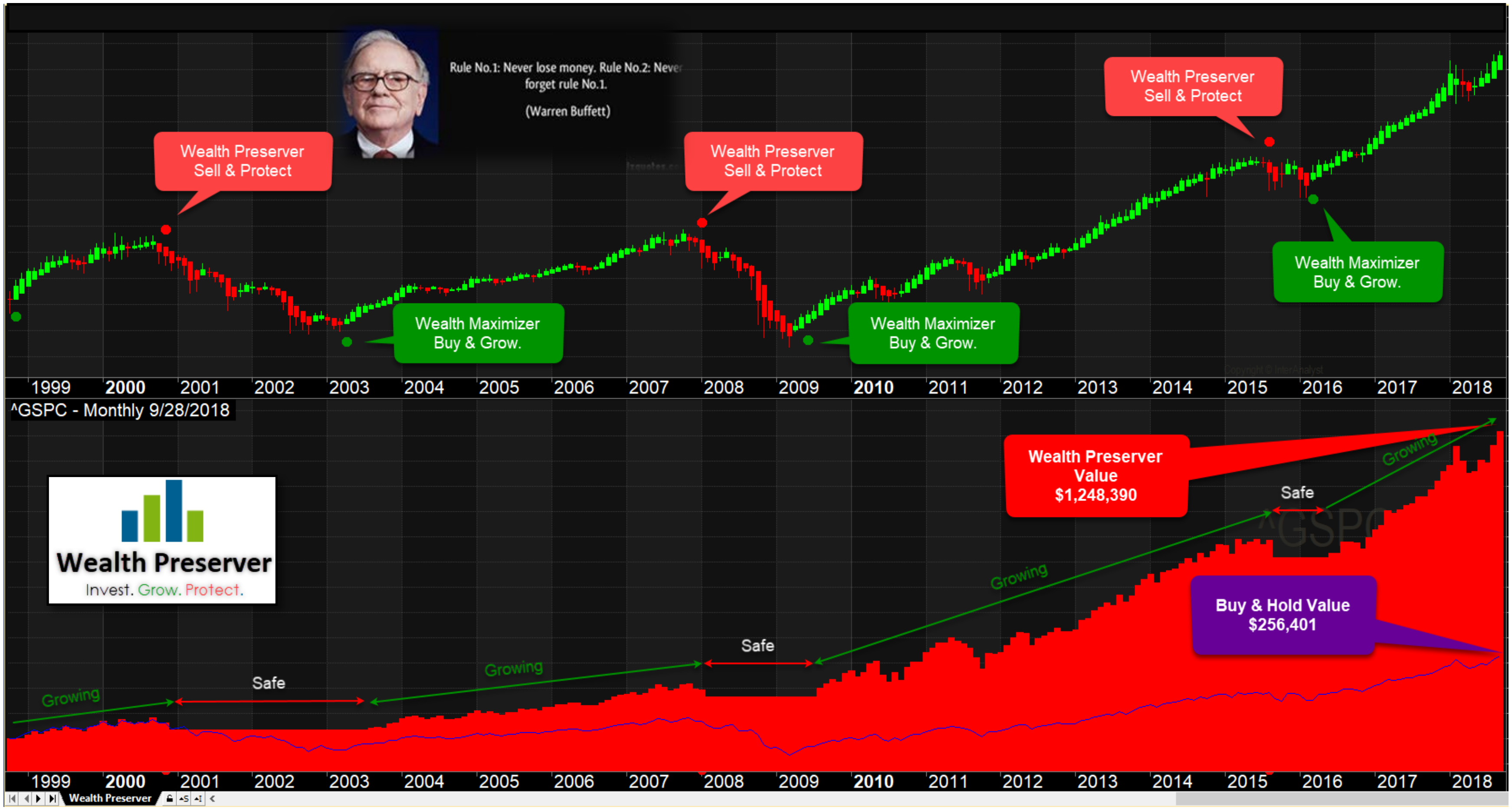


1. Is diversified into four indexes owning over 6,000 stocks and this means that you cannot be more diversified.
2. Is in companies "qualified for the indexes that keep your money invested in the best of the best companies worldwide.
3. Is managed at the lowest cost possible keeping more money in your account to grow.
4. Is available to these indexes inside and outside of your company retirement plan or at all discount brokers at the lowest cost possible.

Shhhhh don't tell…

Wealth Preserver Membership

Buy and hold the Indexes and avoid the declines.



This is representative of just the S&P500 Index (SSO ETF) using our historical red and green lights. Green means go, buy, and grow. Red means, stop, sell, and protect the growth you've built.