



Acorn Financial Advisory Services

Major Stock Market Indexes

There are a number of stock market indexes that are frequently mentioned on television and cited in financial newspapers and magazines. They measure various slices of the stock market and can be used as performance benchmarks for both investment vehicles (such as mutual funds) and one's own portfolio returns. Here are three of the most popular and referenced indexes.

Dow Jones Industrial Average

The Dow Jones Industrial Average was first unveiled by Charles H. Dow on May 26, 1896, and consisted of 12 stocks. In 1916, the industrial average expanded to 20 stocks and in 1928 was subsequently bumped to 30, where it currently stands. The index constituents are 30 of the world's largest, most influential and well-known companies. Whenever you hear someone referring to what "the market" did in any given day, they are most likely referring to the Dow. Changes to the index are rare and usually take place, according to Dow Jones Indexes

(www.djaverages.com), "when a current component is going through a major change, such as a shift in its main line of business, acquisition by another company, or bankruptcy. There is no review schedule."

Standard & Poor's 500 Stock Index

When you hear that a portfolio has "beaten the market" it is most likely being compared with the S&P 500, which was first published in 1957. The index is composed of 500 leading companies in leading industries of the U.S. economy, focusing on the large-cap segment of the market but also serving as a proxy for the total market—covering approximately 75% of the U.S. equities market. The S&P Index Committee follows a set of published guidelines for maintaining the index

(complete details of these guidelines are available at www.indices.standardandpoors.com). Some of the criteria for addition include a market capitalization (share price multiplied by shares outstanding) in excess of \$4 billion, adequate liquidity (how easy it is to buy and sell shares) and reasonable price and financial viability. Those that substantially violate the criteria are dropped.

NASDAQ Composite Index

Launched in 1971, the NASDAQ Composite Index measures all NASDAQ domestic- and international-based common type stocks listed on the NASDAQ Stock Market. The index includes roughly 2,700 securities. While it is best known for its large portion of technology stocks, it also contains stocks in other industries. To be eligible for inclusion in this index, securities must be listed on the NASDAQ Stock Market and they need to be of a specific type. For more information, visit www.nasdaq.com.

Please keep in mind that a company can be a member of more than one of the three indexes described above. Microsoft is an example of a company that has a place in all three.

Stock Market Index Comparison

Stock Index	Dow	S&P 500	NASDAQ
Year Introduced	1896	1957	1971
Constituents	30	500	2,701*
Types of Companies	Large, well-known, influential.	Leading companies in all industries. Focuses on large-cap segment.	Large number of technology stocks. Also includes stocks in other industries.
Index Modifications/ Eligibility	Companies undergoing a major change can lead to a modification.	Market cap in excess of \$4 billion, adequate liquidity/ reasonable price, financial viability.	Listed on NASDAQ Stock Market and needs to be specific security type.
Examples of Current Constituents*	Walt Disney, Johnson & Johnson, Coca-Cola, McDonald's, Walmart	AT&T, Boeing, General Mills, Procter & Gamble, Google	Apple, eBay, Cisco, Dell, Yahoo!
*As of 11/13/2012			

Stocks are not guaranteed and are more volatile than other asset classes. The information above is provided for illustrative and information purposes only. The indexes noted are unmanaged and cannot be directly invested in. References to specific securities should not be viewed as a recommendation to buy or sell the mentioned security.