





Module 11 – Markets and Investment Vehicles

INVESTING – Equity Indices



BUILDING SOUND FINANCIAL MANAGEMENT SKILLS

Index Type	Description	Examples
<p>Broad Market Index</p> 	<ul style="list-style-type: none"> Provides a measure of the market's overall performance. Usually contain more than 90% of the market's total value. 	S&P/TSX Composite
<p>Multi-Market Index</p> 	<ul style="list-style-type: none"> Constructed from indices of markets in several countries. Used to measure equity returns of a specific geographic region or that of the world economy. 	MCSI World
<p>Sector Index</p> 	<ul style="list-style-type: none"> Track different economic sectors on a global, regional, or country basis. Used to analysis a sector's risk to the business cycle. 	Dow Jones U.S. Financials Index
<p>Style Index</p> 	<ul style="list-style-type: none"> Measures return to market capitalization, value, or growth strategies, or a combination of these investment styles. They are intended to reflect the investing styles of certain investors, such as the growth investor, value investor, and small-cap investor. 	S&P/TSX Small Cap Index

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Weighting Method	How it Works	Advantage	Disadvantage	Examples
Price-Weighted Index	<ul style="list-style-type: none"> • Average of the price of the securities included in the index • Simple adjustment for stock splits & index reconstitution 	<ul style="list-style-type: none"> • Simple to calculate 	<ul style="list-style-type: none"> • Results in arbitrary weights for each security 	<ul style="list-style-type: none"> • Dow Jones Industrial Avg. (DJIA) • Nikkei 225
Market Cap-Weighted Index	<ul style="list-style-type: none"> • Each index component is weighted according to market cap (price x # of shares) • Self rebalancing in case of stock splits and stock dividends 	<ul style="list-style-type: none"> • Represents proportional value of total market 	<ul style="list-style-type: none"> • Overvalued securities are given higher weight 	<ul style="list-style-type: none"> • NASDAQ Composite • S&P/TSX Composite
Equal-Weighted Index	<ul style="list-style-type: none"> • Not as commonly used • Average return of the index stocks and matched by the return of an equal portfolio 	<ul style="list-style-type: none"> • Simplistic 	<ul style="list-style-type: none"> • Requires frequent portfolio rebalancing 	<ul style="list-style-type: none"> • HFRX Equal Weighted Strategies EUR Index
Fundamental Weighting	<ul style="list-style-type: none"> • Not as commonly used • Based on the firm's fundamentals, i.e. earnings, dividends etc. • Unaffected by share price 	<ul style="list-style-type: none"> • Avoids the market cap weighted index bias 	<ul style="list-style-type: none"> • Does not truly reflect investor sentiment. • Data intensive 	<ul style="list-style-type: none"> • FTSE RAFI US 1000