Equity Indices

Equity Indices - Introduction

Aggregate statistical values formed by having a grouping of securities that are price to a base value at a date

US	International	Other
Dow Jones Industrial	FTSE (UK)	Sector/Industry Specific
S&P 500	DAX (Germany)	Style Specific
Nasdaq Composite	Hang Seng (Hong Kong)	Total Return
Russell 2000	Nikkei (Japan)	Multi-market

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Equity Index Weightings – Market Value Weighted

Market Value Weighted (aka Market cap weighted or cap weighted)

Most common

Based on Size of the Firm

S&P 500 , Nasdaq and FTSE

Weighting = value of company / value of all companies

Advantage	Disadvantage
Positions in proportion with their value	Momentum driven

Equity Index Weightings – Price Weighted

Price Weighted

Not common anymore

Dow Jones Industrial

Weighting = stock price of company / sum of stock prices of all companies

Advantage	Disadvantage
Simple	Higher price stocks have greater impact

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Equity Index Weightings – Equal Weighted

Equal Weighted	
Same level of influence for all	Weighting = 1 / N
S&P 500 Equal Weight Index	
Advantage	Disadvantage
Simple Highly diversified	Underrepresentation Large turnover

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Equity Index Weightings – Fundamentally Weighted

Fundamentally Weighted	
Weight based on fundamental metric(s) - not price	Example: Sales, earnings, book value, cash flow, dividend yield
Smart Beta Strategies	
Advantage	Disadvantage
Potentially estimate value better than market cap	Requires more data

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