
Stock Market Indexes and Averages

News reports about the stock market that you see or hear every day on television, on the radio, and in newspapers track the movement of groups of stocks, not individual issues. Citing a specific “index” or “average,” these reports give you a general sense of the direction of stock prices. They will not, however, tell you whether the stocks in your own portfolio are up or down. Understanding what these reports mean is important because they are commonly used as benchmarks to measure the performance of individual stocks.

What are Indexes and Averages?

At their most basic, stock indexes and averages are simply ways to measure changes in the market value of certain groups of stocks.

An “average,” as the name implies, is the arithmetic average price of a group of stocks. The Dow Jones Industrial Average (DJIA) is such an average. Made up of 30 large industrial stocks, the DJIA was originally calculated by adding up the price of the stocks included in the average and then dividing by 30. This divisor has since been adjusted a number of times to account for mergers, additions, deletions, and other technical factors.

An index, on the other hand, is an average value expressed in relation to a previously determined base number. The Standard & Poors 500 Index (S&P 500), for example, uses a base value of 10, determined during 1941-1943.¹

These measuring tools can be associated with specific exchanges or industry groups. More specialized indexes are geared toward tracking the performance of specific market sectors, such as high technology, energy, health care, finance, or transportation.

Price-Weighted vs. Market-Value Weighted

An index or average may also be classified according to the method used to determine its price. In a price-weighted index (e.g., the DJIA), the price of each component stock is the only consideration when determining the value of the index. Thus, the price movement of higher-priced stocks influences the average more than that of lower-priced stocks.

In contrast, a market-value weighted index (e.g., the S&P 500) factors in a stock’s total market value, equal to the share price times the number of shares outstanding. Therefore, a relatively small shift in the price of a large company can significantly influence the value of the index.

¹ It is not possible to directly invest in an index.

Stock Market Indexes and Averages

Commonly Encountered Indexes and Averages

Standard & Poor's 500 Index: The S&P 500 is the benchmark against which many portfolio managers compare themselves. The “S&P” (as it is commonly referred to) is composed of 500 “blue chip” stocks, separated by industry, so that almost all key industries are represented.

Dow Jones Industrial Average (DJIA): This commonly quoted average tracks the movement of 30 of the largest blue chip stocks traded on the New York Stock Exchange (NYSE). When people ask, “How did the market do today?” they are usually referring to this index:

| Component Stocks of the Dow Jones Industrial Average ¹ | | | |
|---|-------------------|------------------|---------------------|
| 3M | E.I. DuPont | JPMorgan Chase | UnitedHealth |
| American Express | Exxon Mobil | McDonald's | United Technologies |
| AT&T | General Electric | Merck | Verizon |
| Boeing | Goldman Sachs | Microsoft | Visa Inc. |
| Caterpillar | Home Depot | Nike Inc. | Wal-Mart |
| Chevron | IBM | Pfizer | Walt Disney |
| Cisco | Intel | Procter & Gamble | |
| Coca-Cola | Johnson & Johnson | Travelers | |

Dow Jones and Co., which maintains the DJIA, also tracks utilities (electric and gas) in the Dow Jones Utilities Average and transportation stocks (airlines, railroads, and trucking firms) in the Dow Jones Transportation Average. The combined industrial, utilities, and transportation averages are called the Dow Jones Composite Average.

NASDAQ Composite Index: This index tracks the movement of all companies traded on the NASDAQ National Market System (NMS), which tend to be smaller and more volatile than those in the Dow Jones Industrial Average or the S&P 500. The NASDAQ Composite is market-value weighted, which gives more influence to larger and higher priced stocks.

NYSE Composite Index: This is the index for the trading of all New York Stock Exchange stocks. It is market-value weighted and expressed in dollars and cents. When commentators say, “The average share lost 15 cents on the New York Exchange today,” this is the index to which they are usually referring.

¹ As of September 23, 2013.

Stock Market Indexes and Averages

NYSE MKT Composite Index: An index which tracks all common stocks listed on the New York Stock Exchange. The index is weighted by the market capitalization of its components, meaning that stocks with a larger number of shares outstanding and with higher stock prices affect the index more than companies with fewer shares outstanding and lower prices.

Wilshire 5,000 Equity Index: The broadest measure of all indexes, the market-value-weighted Wilshire includes all U.S. stocks for which price data are readily available. Thus, it gives a good indication of the overall direction of all stocks, large and small.

Foreign Indexes: A number of indexes follow markets in foreign countries, such as the British FTSE 100, the French CAC 40, the German DAX, and the Japanese Nikkei 225.