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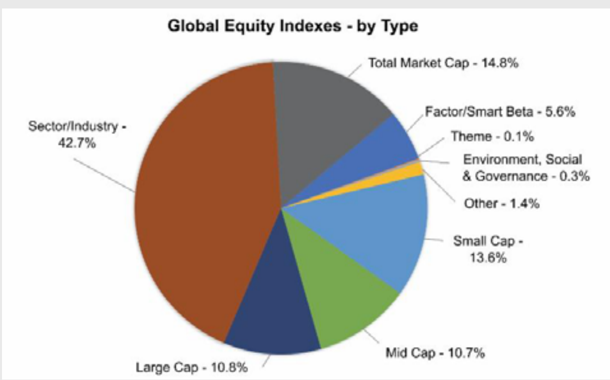
Slicing and Dicing the Financial Markets

The Dow Jones Industrials and S&P 500 Index may be the most widely known stock market indexes, but their use to slice and dice the stock market into sectors, segments and investment themes is actually rather antiquated. The Index Industry Association surveyed their members to find out how many indexes they maintain and found out that there more than 3.2 million financial market indexes. That compares to just 43,192 public companies in existence according to the World Bank.

A stock market index is essentially the combined performance of a specific group of individual publicly traded companies. It is not an average, but rather an aggregate. How that aggregate is determined can get complicated. The Dow Jones, which originated long before today's computing power was available, is a relatively simple price-weighted index, where the price gain or loss of even one stock can affect the value of the entire index. In a cap-weighted index, such as the S&P 500, price moves in the largest companies based on market capitalization can have a dramatic effect on the value of the index while the same movement in stock with a lower capitalization would have a muted effect. This is why Apple's price performance can rock the entire S&P 500 index. With smart beta and more esoteric indexes, calculations get much more complex.

How are investors using more than 3.2 million indexes? Many of the indexes are used to create and maintain Exchange Traded Funds (ETFs) that track individual market segments. Fall 2017, there were more than 10,300 ETFs traded worldwide.



Sector and Industry Indexes Dominate the Index Universe

While the bulk of the ETF assets are centered in the Americas, the majority of the ETF listings are from Europe, the Middle East and Africa.

But that's no where near three million. The real use of indexes is to benchmark and analyze market niches (sometimes as few as a handful of companies), to contrast the performance of those niches, and to determine trends and opportunities through clues from the financial markets. In addition to investors, governments, regulators and businesses themselves are using indexes to analyze markets, sectors, industries, and more.

According to the IIA, global indexes represent approximately 29% of the equity indexes available by geography. This is followed by Asia Pacific (APAC) and Europe, Middle East and Africa (EMEA), at 24% each of equity indexes available, and frontier/emerging indexes (14%). The Americas have the fewest number of equity indexes, representing 9% of indexes globally. The other most common indexes are based on commodities, foreign exchange and healthcare costs.

One reason the indexes have proliferated is that once the data feeds and the computing power to calculate one index are in place, it costs very little to calculate extra indices resulting in increasingly finer slices and dices of the financial markets.

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