

Indexes and Indicators

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Special Interest Articles

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These indexes and indicators are followed by advisors such as those at Peak Financial to gauge whether your portfolio is optimized. An optimized portfolio is a key component in helping you to achieve your financial goals.

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Indexes Explained

When you ask, “How did the market do today?” most times you’re actually referring to an index, rather than the market as a whole.

Indexes were created in 1896 by Charles Dow, as a benchmark of how well stocks in general performed each day. In the years since the Dow Jones Industrial Average has been expanded to include 30 top U.S. companies and many other indexes have been devised.

But the Dow is limited and not all things to all people, so

the Standard and Poor’s (S&P) 500 is quoted often. It’s a listing of 500 of the largest market cap companies traded on U.S. exchanges. There is an S&P 400 (top mid-sized companies) and S&P 600 (top 600 small companies). In addition, S&P maintains a couple dozen international and global indexes.

Other organizations have created their own indexes that measure ‘the market’ or a subset that is based on industries, countries, or other categories.

Indexes can be invested in by buying shares of mutual funds. These funds purchase all the underlying stocks that make up a specific index. Investment returns closely match the performance of the index as long as expenses are low. Talk to your advisor prior to investing in these to make sure the broad market indicators match your goals for investing. Remember it’s always important to select an index to measure your portfolio against.



Other Popular Indexes

NASDAQ Stock Market Composite - Covers approximately 4,500 of the most popular over-the-counter stocks (stocks not listed on an exchange).

This index represents many small company stocks, but is heavily influenced by about 100 of the largest stocks – many of them technology stocks – listed on the NASDAQ.

Wilshire 5000 – By far the most comprehensive market indicator of all is the Wilshire 5000 equity index. As its name implies, the Wilshire Index covers over 5,000 stocks, including all the issues on the New York (NYSE) and

American Stock Exchange (AMEX), as well as the most active stocks in the over-the-counter market.

Russell 2000 – The Russell 2000 Index offers investors a barometer for the small-cap segment of the U.S. equity market. This index is completely reviewed and restructured annually to ensure larger stocks do not distort the performance and characteristics of this small-cap benchmark.

EAFE World Index – A benchmark which measures the performance of global equity (stock) markets. The EAFE index includes over 900 stocks

and is a way to compare your international holdings against the general international market.

Lehman Brothers Aggregate Bond Index – This consolidates three component indexes: the Government / Corporate Bond Index (all investment-grade bonds), the Mortgage-Backed Securities Index (all fixed-rate, securitized mortgage pools), and the Asset-Backed Securities Index (composed of credit card, auto, and home equity loans). Remember - generally when stocks rise in value, bonds decrease in value.



Economic indicators can be confusing, and should be used in comparison to one another over a span of time. Our recommendation is to never use just the latest number to make a decision on investment choices. They are only part of the overall picture in how economy is doing and how your investments will respond to market changes.

Indicators by the Numbers

In formulating the U.S.'s monetary policy, the Federal Reserve considers a number of factors, including economic and financial indicators, as well as other anecdotal reports compiled by government agencies. Some major indicators are listed below.

Real Gross Domestic Product – The total value of goods and services produced within the borders of the U.S., used to measure the performance of the U.S. economy. It's used with other indicators to assess whether the current stance of monetary policy is consistent with the primary goal.

Consumer Price Index – Used to measure the change in price of a fixed basket of goods and services. This basket is representative of the purchases of the typical urban consumer. The index is meant to measure price only and not changes in quality. Changes in this number may indicate inflation or deflation.

Housing Starts – An estimate of the number of housing units on which construction was started. It is defined as excavation for the footings or foundation, or the first shovel of dirt to break ground. Included are

housing units built on an existing foundation after the previous unit was completely destroyed. Housing starts are divided into single-family and multifamily units.

Retail Sales – This is an estimate of the total sales of goods by all retail establishments in the U.S. Data is in current dollars and is not adjusted for inflation. The data is adjusted for seasonal and holiday differences between the months of the year. The indicator allows policymakers to assess the likelihood of personal expenditures for current and future quarters.

Additional Indicators

Nonfarm Payroll Employment – The indicator of the number of payroll jobs at all nonfarm business establishments and government agencies. The growth of employment and hours worked provide information as to the current and likely future pace of all economic growth. Trends in average hourly earnings provide a view to the supply and demand of the labor markets.

Business Sales and Inventories – The total dollar sales and inventories of manufacturing, wholesale and retail sectors of the

economy. Inventory accumulation plays a key role in determining the current and future pace of growth. Growing inventories may signal a slowdown and shrinking inventories may signal a future pickup in production.

Light Weight Vehicle Sales – Total unit sales and leases of domestic and imported new automobiles and light weight trucks. This measure includes sales and leases to both consumers and businesses. This is a small component of the U.S. economy, however

changes in this number can account for a large part of quarter to quarter changes in the rate of growth of GDP.

Yield on the 10 Year Treasury Bond – This is the current market interest rate on (or yield) on U.S. Treasury bonds maturing 10 years in the future. Changes in long-term rates provide information about likely changes in interest based securities.

M2 Money Supply – This measure is a view of the nation's supply of money that is used as an indicator of the growth of the Gross Domestic Product (GDP).