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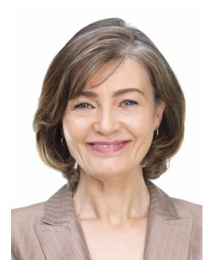

Prof. Dante Alighieri
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Dear Dante:

When we were kids, most of us were taught that "The only bad question is the one left unasked." As a financial advisor, we've found that statement to be proven true time and time again. Every day, our clients ask us questions about the markets, taxes, their personal finances, you name it. Over the course of my career, we have never thought, "That's a stupid question." Not once.

That's because stupid questions simply don't exist!

Nevertheless, at some point, *everyone* has a question that they keep to themselves. Maybe because they're afraid the question is so basic it would be embarrassing to ask. Maybe it's because they feel they should know the answer already and don't want to look ignorant.

But Dante, when it comes to your finances, *there are no bad questions.* And for those of us who know the answers, our job is to make sure others know them too. For that reason, we have started a new series of monthly letters called "*Questions You Were Afraid to Ask.*" Each month, we will look at a common question that many investors have, but feel uncomfortable asking. To start, let's look at:

Questions You Were Afraid to Ask #1:
What's the Difference Between the Dow, S&P 500, and NASDAQ?

You hear it every day when you turn on the news – some variation of: *The Dow closed at 34,000 today. The S&P closed at 4,433. The NASDAQ rose 1.6% as tech shares…*

You know all those terms refer to "the stock market." But what, exactly, do they mean? Why is the Dow always so much higher than the S&P? Does that mean it's better? And what makes the NASDAQ different from the others?

The good news is that the answers to these questions are really quite simple. We just need to define some terms!

The Dow, S&P 500, and NASDAQ Composite are all **indexes**. An index tracks the performance of a group of securities, like bonds or – in this case – stocks. Indexes are handy tools because they enable investors to compare current price levels for different segments of the market with past ones, so they can measure performance over time. Some indexes track extremely narrow segments of the market, like companies of a specific size or sector. Others are much broader.

What makes the Dow, S&P 500, and NASDAQ different from another is what each index measures. So, let's take each one at a time.

Dow Jones Industrial Average: This index tracks the performance of 30 of the most prominent companies listed on stock exchanges in America. (As of this writing, think Apple, Coca Cola, and Walmart, among others.) Because it is so narrow, the Dow isn't always a good indicator of how the overall stock market is doing. But because the companies inside the Dow are so important or well-known, *many* people have money invested in them. That's why the media pays so much attention to how the Dow is doing.

S&P 500: This index measures 500 of the largest companies listed on American stock exchanges. (Quick note: A **stock exchange** is where traders actually buy and sell stocks. The New York Stock Exchange is the biggest and most famous, but there are many exchanges across the world.) Because the S&P 500 tracks so many more companies than the Dow, across a broad range of industries, it is often considered a more reliable snapshot of the overall economy than the Dow.

NASDAQ Composite: This index tracks nearly all the stocks listed on the Nasdaq Stock Exchange and is heavily weighted towards technology companies.

There are plenty of other indices, too. For example, one of the most important is the…

Russell 3000: You don't hear about the Russell as much as the previous three, but this index represents nearly the entire U.S. stock market. It includes 3,000 of the country's largest publicly held companies. (There are also Russell 1000 and Russell 2000 indices.)

S&P/TSX Composite: This is the most important index in Canada. It tracks the performance of the 250 largest companies listed on the Toronto Stock Exchange. You can think of it as the Canadian equivalent to the S&P 500.

So, «Salutation», now you know why the financial media is always showing different averages for different indices when they talk about "how the stock market did today." Because each index is measuring something different!

Next month, we'll talk about why these indices are all priced so differently. (For example, the Dow is always much, much higher than the S&P 500, even though the latter contains over four hundred more companies.) Spoiler: It all comes down to something called **weighted average**. After that, we'll move away from stocks and look at other areas of personal finance.

We hope you'll find these letters interesting, and that some of your questions will get answered. In the meantime, have a great month!

Sincerely,

Susan A. Brokerman

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