

THE ANATOMY OF AN INDEX

Did you know that more than \$7.8 trillion in assets are benchmarked to the Standard & Poor's 500 Composite Index, including \$2.2 trillion in index assets?¹

The S&P 500 is ubiquitous—we see it on the TV news, read about it in the newspapers, and very likely see some of our own investments' performance compared against it. For an index that represents approximately 80% of the value of the U.S. equity market, it may be worthwhile to gain a better understanding of how it works.²

CAP & CRITERIA

The index, as we know it today, was introduced in 1957 and is maintained by Standard & Poor's Index Committee. Contrary to popular belief, it is not comprised of the 500 largest companies in America, but is a collection of large-cap stocks representing a broad range of market sectors, including, among others, technology, energy, healthcare, and consumer staples.³

There are a number of criteria a company must meet to be considered for inclusion in the index. Some of these criteria include the following: it must be a U.S. company, have a market capitalization of \$5.3 billion or more, be an industry leader that is representative of a particular market sector, and be financially viable.⁴

CHANGES OVER TIME

Another common misconception is that the index is a static one. In fact, companies will be removed from time to time for reasons that include violation of one or more of the criteria used for adding companies, or because of a merger, acquisition, or significant restructuring, including bankruptcy.

The turnover in the index's constituent companies was 5.2% in 2017. According to one study, if current trends continue, nearly half of the current S&P 500 will be replaced over the next 10 years.⁵

1. McGraw Hill Financial, January 2017. The S&P 500 Composite index (total return) is an unmanaged index that is generally considered representative of the U.S. stock market. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results.

2. McGraw Hill Financial, January 2017

3. Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

4. McGraw Hill Financial, January 2017

5. Innosight, 2018

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