

# The Navigator

## MARKET MEASURES: BEYOND THE DOW

When you hear or read that the market is up or down, what does that really mean? More often than not, it reflects movement in the two best-known stock market indexes, the Dow Jones Industrial Average and the S&P 500.

In fact, there are hundreds of indexes that track various categories of investments. While you cannot invest directly in an index, you can buy funds that track specific indexes, and you can look at indexes as a benchmark for certain portions of your portfolio. For example, the Dow or the S&P 500 might be a reasonable benchmark for your domestic stocks and stock funds, but you should not expect your entire portfolio to match the performance of those indexes.

Here are some commonly cited indexes.

The **Dow Jones Industrial Average** tracks stocks of 30 large well-known U.S. companies across a variety of business sectors. Originally a true average of stock prices, it now uses a divisor to adjust for stock splits, distributions, and substitutions — making it a *price-weighted index* rather than a true average.<sup>1</sup>

Unlike the Dow, the following indexes are weighted based on *market capitalization*, the value of a stock's outstanding shares. Market-cap-weighted indexes are skewed toward the performance of the larger companies in the index.

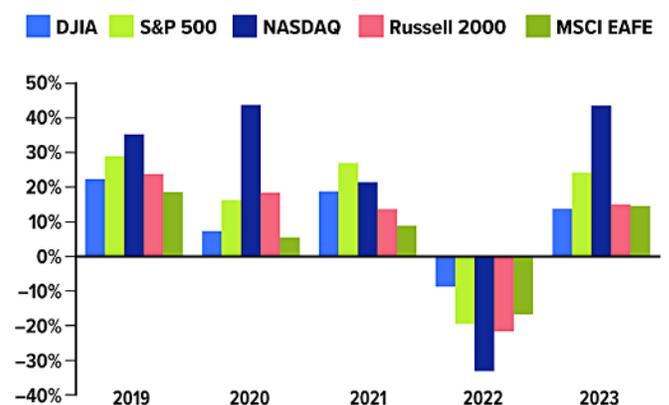
The **S&P 500** tracks a much broader range of large U.S. companies (large caps) than the Dow and is often considered representative of the U.S. stock market in general. However, it does not capture mid-size companies (mid caps) or small companies (small caps), which generally carry higher risk and higher growth potential than large companies and are tracked by the **S&P MidCap 400** and **S&P SmallCap 600**, respectively. Together these three indexes comprise the **S&P Composite 1500**. The number of stocks in S&P indexes may vary slightly from the number indicated in the name.<sup>2</sup>

The **NASDAQ Composite Index** tracks all domestic and foreign stocks traded on the Nasdaq Stock Market (about 3,400 in early 2024). It includes companies of all sizes across a range of industries but is heavily weighted toward technology companies. Many Nasdaq stocks carry higher growth potential but greater risk than the large domestic stocks tracked by the Dow and the S&P 500. The **Nasdaq-100** tracks the largest non-financial companies traded on the Nasdaq.<sup>3</sup>

The **Russell 3000 Index** tracks stocks of the 3,000 largest U.S. companies, ranked by market capitalization. The **Russell 1000 Index** tracks about 1,000 of the largest, essentially a combination of large caps and mid caps. The **Russell 2000 Index** tracks the rest and is the most widely used benchmark for U.S. small-cap stocks.<sup>4</sup>

Five Indexes, Five Years

### Annual index performance (price only), 2019 to 2023



Source: London Stock Exchange Group, 2024, for the period 12/31/2018 to 12/31/2023. Dow Jones Industrial Average (DJIA) Price Index, S&P 500 Composite Price Index, NASDAQ Composite Index (price), Russell 2000 Price Index, and MSCI EAFE Price Index. The performance of an unmanaged index is not indicative of the performance of any specific security. Past performance is no guarantee of future results. Actual results will vary.



The **FT Wilshire 5000 Index** tracks the performance of all U.S. stocks with readily available price data, making it the broadest measure of the U.S. stock market. When established in 1974, the index contained around 4,700 stocks, and grew to more than 7,500 in 1998. The number has dropped since then, largely due to corporate consolidation, and the index included about 3,400 stocks in early 2024.<sup>5</sup>

The **MSCI EAFE Index** tracks about 800 large- and mid-cap stocks in 21 developed countries outside the United States and Canada and is a widely accepted benchmark for foreign stocks. The **MSCI World Index** includes the same 21 countries plus the U.S. and Canada and is heavily weighted toward U.S. stocks.<sup>6</sup>

*All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Investing internationally carries additional risks such as differences in financial reporting and currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility.*

*Funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

*Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.*

## ENRICHING A TEEN WITH A ROTH IRA



Teenagers with part-time or seasonal jobs earn some spending money while gaining valuable work experience. They also have the chance to contribute to a Roth IRA — a tax-advantaged account that can be used to save for retirement or other financial goals.

Minors can contribute to a Roth IRA provided they have earned income and a parent (or other adult) opens a custodial account in the child's name. Contributions to a Roth IRA are made on an after-tax basis, which means they can be withdrawn at any time, for any reason, free of taxes and penalties. Earnings grow tax-free, although non-qualified withdrawals of earnings are generally taxed as ordinary income and may incur a 10% early-withdrawal penalty, unless an exception applies.

A withdrawal of earnings is considered qualified if the account is held for at least five years and the distribution is made after age 59½. However, there are two penalty exceptions that may be of special interest to young savers. Penalty-free early withdrawals can be used to pay for qualified higher-education expenses or to purchase a first home, up to a \$10,000 lifetime limit. (Ordinary income taxes will apply.)

## Flexible College Fund

A Roth IRA may have some advantages over savings accounts and dedicated college savings plans. Colleges determine need-based financial aid based on the "expected family contribution" (EFC) calculated in the Free Application for Federal Student Aid (FAFSA).

Most assets belonging to parents and the student count toward the EFC, but retirement accounts, including a Roth IRA, do not. Thus, savings in a Roth IRA should not affect the amount of aid your student receives. *(Withdrawals from a Roth IRA and other retirement plans do count toward income for financial aid purposes.)*

## Financial Head Start

Opening a Roth IRA for a child offers the opportunity to teach fundamental financial concepts, such as different types of investments, the importance of saving for the future, and the power of compounding over time. You might encourage your children to set aside a certain percentage of their paychecks, or offer to match their contributions, as an incentive.

In 2023, the Roth IRA contribution limit for those under age 50 is the lesser of \$6,500 or 100% of earned income. In other words, if a teenager earns \$1,500 this year, his or her annual contribution limit would be \$1,500. Parents and other individuals may also contribute directly to a teen's Roth IRA, subject to the same limits.

## PLEASE WELCOME AUSTIN KELLY

We are excited to welcome Austin Kelly to the Fort Collins branch of The Compass Wealth Group team. With nearly two decades of industry experience, Austin has excelled in various roles, including Chief Compliance Officer, Operations Manager, and a Registered Investment Advisor at Cosner Financial Group. His expertise in planning, administrative processes, and compliance is valuable to our team.

Austin grew up in Stanton, Texas, and graduated from The University of Texas at San Antonio with a Bachelor of Business Administration in Accounting and Finance. He moved to Colorado in 2007 and currently resides in Fort Collins with his two teenage daughters, Copley and Kinley, and their golden retriever, Quinn. Austin is an avid golfer but especially enjoys watching his daughters play volleyball.

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