

TIME

DOW VS NASDAQ VS S&P: WHAT'S THE DIFFERENCE?



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On Wall Street, there are perhaps no more important barometers of the strength or weakness of the U.S. stock market—and, some say, the U.S. economy as a whole—than the S&P 500, Nasdaq Composite and Dow Jones Industrial Average indices.

In general, these indices “provide investors with a way to track the performance of different segments of the U.S. stock market and compare the performance of individual stocks and portfolios to the broader market,” said Derek Miser, CEO of Miser Wealth Partners in Knoxville, Tennessee. “They are widely followed by investors, financial professionals, and the media as indicators of the health of the U.S. economy and the global financial markets.”

So, when one, two, or all three of the indices take big swings on any given day—with the prices of stocks for publicly traded companies rising and falling—investors, financial professionals, and the media pay attention.

Throughout the trading day, each index moves up or down according to its own point system. While the S&P 500 may close the trading day at 4,000 points, the Nasdaq might land at 12,000 and the Dow at 33,000.

What are the S&P 500, Nasdaq Composite, and Dow? How do they work?

While the S&P 500, Nasdaq Composite and Dow Jones Industrial Average (DJIA) measure buying and selling activity on the U.S. stock market, they operate in different ways.

S&P 500

The S&P 500, formally known as the Standard & Poor's 500, launched in 1957; its predecessors date back to the late 19th century. The index features the stocks of about 500 major companies, many of which are household names. Those names include Alphabet (owner of Google), Amazon, Apple, Meta Platforms (owner of Facebook), Microsoft, and Tesla.

“The S&P 500 is widely regarded as a benchmark for the U.S. stock market,” Miser said, “and is used by investors and financial professionals to gauge the health of the overall economy.”

The S&P 500 represents around 80% to 85% of the U.S. stock market.

A company must adhere to several criteria to be added to the S&P 500:

- It must be based in the U.S.
- The market capitalization (market cap) of the company

must be \$8.2 billion or more.

- At least half of the company's outstanding shares must be available for the public to buy and sell.
- Its recent earnings track record must be positive.
- Its shares must be highly liquid, meaning the stock must be easy to convert to cash.

Nasdaq Composite

The Nasdaq Composite index, which dates back to 1971, comprises nearly all of the securities traded on the Nasdaq Stock Market. Tech companies make up the biggest chunk of stocks included in the index, although a range of business sectors is represented.

To be part of the index, a company's U.S. securities must be listed exclusively on the Nasdaq market. Among the most recognizable companies in the Nasdaq Composite index are Alphabet, Amazon, Apple, Meta Platforms, Microsoft, PepsiCo, and Tesla.

The Nasdaq imposes no geographic or market cap requirements on companies.

The Nasdaq Composite is often used as a benchmark for the performance of stocks of tech and growth companies.

Dow Jones Industrial Average (DJIA)

Founded in 1896, the Dow Jones Industrial Average is the granddaddy of U.S. stock indices.

Also known as the Dow Jones or simply the Dow, the index tracks the performance of 30 U.S. “blue chip” companies in industries except transportation and utilities.

One of the most widely recognized indexes, the Dow offers a snapshot of U.S. stock market performance.

Although stock selection for the Dow is not governed by a strict set of rules, decision-makers focus on a company's reputation, history of sustained growth, interest to investors, and representation of the broader market when choosing Dow stocks, according to S&P Dow Jones Indices.

“Replacing a [Dow] stock generally requires a significant change in a constituent company's core business or a major corporate action, such as an acquisition,” adds S&P Dow Jones Indices, which controls the Dow and the S&P 500.

What is the purpose of the S&P 500, Nasdaq Composite and Dow?

At their core, the S&P 500, the Nasdaq Composite, and the Dow measure the performance of collection of stocks. More broadly, they can be indicators of the health of the U.S. stock market and the economy.

What are the key differences among the S&P 500, Nasdaq Composite, and Dow? Stocks

Each index comprises its own set of stocks. For instance, the

S&P tracks about 500 stocks, while the Dow tracks 50.

Business sectors

Each index features a different mix of business sectors. For example, nearly 50% of the Nasdaq Composite comprises tech companies, whereas the tech sector's share of the Dow is 17.2%.

Weighting

As Miser explains, the S&P 500 and Nasdaq Composite are weighted toward market cap, meaning the weight of each company's presence in the index matches its market cap (the total value of a company's outstanding shares). By contrast, the Dow is a price-weighted index, meaning the weight of each company's presence is determined by its stock price, not by its market cap.

Which index is best for investing?

Miser said no index is better than another for investing. Which index an investor favors depends on their investment goals, risk tolerance, and investment strategy. An investor might decide to concentrate on stocks in just one index or might trade stocks in all three indexes, he pointed out.

“The S&P 500 is the broadest of the three indexes, covering a wide range of industries. Investors who are looking for a diversified portfolio may choose to invest in the S&P 500, as it provides exposure to a broad range of companies,” said Miser.

Meanwhile, investors seeking exposure to the tech sector might go with the Nasdaq Composite, he added.

As for the Dow, this index comprises 30 large companies that are viewed as blue-chip stocks. “Investors who are looking for exposure to well-established, stable companies may choose to invest in the Dow,” Miser said.

Miser suggested that an investor who follows a more passive strategy might invest in an index fund tied to the S&P 500, while an investor with a more aggressive strategy may opt to buy and sell individual stocks that are part of the Nasdaq Composite or the Dow.

What are the alternatives to the S&P 500, Nasdaq Composite, and Dow?

Although the S&P 500, the Nasdaq Composite, and the Dow are well-established stock indexes, they're not the only ones on Wall Street. Other indexes include:

- S&P MidCap 400 (midsize companies)
- Nasdaq 100 (largest non-financial companies listed on Nasdaq)
- Dow Jones Transportation Average (transportation companies)
- NYSE Composite (common stock of all companies listed on the New York Stock Exchange)
- Russell 1000 (large-cap companies)
- Barron's 400 (highly rated U.S. stocks based on factors such as growth, value, and profitability)

Derek Miser, CEO of Miser Wealth Partners in Knoxville, TN, has worked in the financial services industry for more than two decades. Derek and Miser Wealth Partners delivers a single source solution for those seeking to simplify their wealth management activities by accessing legal, tax and investment advisory all in one place. To contact Derek call 865-281-1616 or visit www.miser-wp.com.

