

MEANING OF MARKET INDICES

Many measures of the market have been creeping into our financial vocabulary: the performance of NASDAQ, for one, is frequently cited next to the Dow on newscasts. There are an increasing number of media enterprises that devote themselves to finance, such as Bloomberg and CNBC. The public is becoming much more savvy about the array of indicators serving their needs.

For example, besides the S&P and NASDAQ, there is also the Wilshire 5000 which lies at the opposite pole as the Dow in terms of breadth by measuring the biggest 5000 companies in the economy. Some say it is too big to be descriptive, but in any event, it's a different kind of snapshot.

The answer to the commonly asked question, "which index is the best index" is that none are perfect. It is important to find out what your consultant and manager use to track your assets and follow that index closely. With high finance playing more of a role in people's everyday lives, the future is likely to hold more indicators, not fewer, and while some of them will keep their place at the head of the table, the table will grow. We encourage you to make your investment decisions based on a variety of indicators over a market cycle rather than just one indicator.

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A short-term view on the markets can lead to hasty decisions that could turn out to be just a small "blip" on the screen of the index you watch. Contact your consultant to find out which indicators are most important to the role your money plays for you.

In the meantime, we thought a few descriptions might be helpful for you as you watch tonight's financial news:

DOW JONES INDUSTRIAL AVERAGE

The DJIA is the nation's oldest stock market

indicator. It tracks 30 stocks. The editors of the Dow Jones-owned *Wall Street Journal* decide which companies should compose the Dow industrial average. The DJIA represents a small, but relatively important glance at current stock market behavior and overall economic activity in the United States, and even abroad.

The 30 stocks in the average are large, blue-chip companies with familiar names like AT&T and McDonald's. The weighting of each company is based upon its stock price. In the past, the daily fluctuation of this average was probably representative of the average investors' exposure to the stock market. With today's higher level of investment sophistication, money managers tend to focus on stock indices that more accurately reflect the interest of

their clients and the management style of the portfolio.

THE STANDARD AND POOR'S 500 INDEX

Today, the S&P 500 is the universal benchmark for judging stock managers. Since billions of dollars are directly linked to it through various funds, there are good reasons for investors to be curious about it.

The index dates back to 1926, and to 1957 in its present form with 500 stocks in the index. It is not the largest or even the "best" 500 stocks but rather stocks selected by Standard & Poor's Index Committee. The index includes leading companies in leading industries in the U.S. markets and is a good reflection of the state of the U.S. stock market. The weighting each company receives in the index is proportional to the company's market value. It also generally reflects the composition of the economy. It is a broader measure of market activity versus the Dow Jones Industrials, and as such, the fluctuations of the S&P 500 will effect most stock market investors, although probably not on a 1 to 1 basis.

We at Capstone use the S&P 500 Index as our primary performance measurement for our large capitalization Core Equity Growth Portfolios.



NASDAQ/AMEX

On October 30, 1998, the National Association of Securities Dealers, Inc. and the American Stock Exchange joined forces. The American Stock Exchange is the nation's second largest floor-based exchange and has significant presence in both listed equities and equity derivative securities. Some say that its natural resource companies skew the American Stock Exchange. The NASDAQ Stock Market made its debut as the world's first electronic stock market and uses technology to bring millions of investors together with the world's leading companies. Some experts say NASDAQ is code word for "hi-tech" stocks as the amount of technologically driven companies included in NASDAQ is rather large. NASDAQ and AMEX are good indices for today's investors to be familiar with but, we do not consider them to be the most important as we monitor the relative performance of our clients equity portfolios.

RUSSELL 2000

The Russell 2000 measures and tracks only emerging "small cap" companies. It starts by including the top 3,000 companies and then they cut off the top 1,000 to leave them with the remaining companies. Capstone's equity portfolios are "large cap" and therefore the Russell 2000 has little meaning as a relative point of interest.

EVER WONDER WHY?

Ever wonder why the stock market goes down on good economic news and up on bad? Or why job growth can send Wall Street into a frenzy while slowing of job creation can spark a rally? The market's

movements depend on many economic circumstances. Following are a few descriptors of indicators, which can help us to interpret where the economy is going.

CONSUMER CONFIDENCE INDEX

The better shoppers feel about their financial situations, the more they buy. More than 2/3 of U.S. Corporate earnings are derived from consumer buying, therefore whether people feel "rich" or "poor" has a direct impact on corporate profits. This index measures the current financial situations of over 5,000 households and their expectations for the economy during the next six months. When this index goes above 100 people feel comfortable about their economic situation and will likely continue to buy. When it dips below 80 for two consecutive months, a recession is likely to begin within three to six months.

CONSUMER PRICE INDEX

The CPI reflects changes in the prices of a fixed "market basket" of goods and services purchased by the typical urban consumer. Increases in the CPI, which is updated about every 10 years, generally are considered warnings of inflation. If, during a three-month period, the CPI rises by an annualized rate of 8%, an economic slowdown is likely. It is a widely watched indicator.

EMPLOYMENT SITUATION REPORT

Often referred to as "the mother of all indicators". This report includes a count of the number of jobs created (known as non-farm payrolls), and changes in wages and hours worked, as well as the unemployment rate. On average, if fewer than

100,000 jobs (relative to the previous three months) are created in each of several months, the economy could be headed for a slowdown. If more than 300,000, it could be overheating. Ideally, the Federal Reserve wants to see the number of new jobs in the 150,000 – 200,000 range; then they would likely never change interest rates!

THE NATIONAL ASSOCIATION OF PURCHASING MANAGERS INDEX

Fed Chairman Alan Greenspan closely watches this index. It includes responses from 300 companies in industries across the economy about changes in new orders, prices and supplier deliveries. The supplier delivery component may have the most impact on interest rates. Managers are asked if suppliers are delivering orders faster or slower than they did during the prior month. Longer delivery times indicate that the suppliers are working to capacity, and therefore have the leverage to raise prices. A high supplier delivery number is sometimes an indication that interest rates will be raised.