Architecture Intelligence

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WHAT DO THE INDEX MEAN? & HOW/WHY DO WE CHOOSE/CALCULATE THE INDEX?

Why do we choose S&P 500?:

1.S&P 500 widely regarded as the best gauge of large-cap U.S. equities, showing the general trend of the stock market. By compared with lowball price company index, it will show general investment returns, anti period benefits and risk-averse power of target companies.

2. The S&P 500 uses a market capitalization weighting method. We use the same method to calculate the weights of companies index. On the same dimension, comparison on these two indexes is of comparability and validity, making more sense.

3.S&P 500 also only uses free-floating shares, meaning the shares that the public can trade. Visualization the indexes of outstanding shares will help the outside investors better measure the investment potential of index, industries and even specific type companies.

How do we calculate the new index?:

$$\text{Weighting in S \& P} = \frac{\text{Total of all market caps}}{\text{Company market cap}}$$

$$\text{Index Level} = \frac{\sum (P_i \cdot Q_i)}{\text{Divisor}} \ X \ 1000$$

The calculation methodology of index_lowball and index_withoutlowball is the same as that of S&P500, where P is the price of each stock in the index and Q is the number of shares publicly available for each stock. Here, Architecture Intelligence uses monthly closing price as P and outstanding shares as Q. the Calculated index is timed with 1000 to strengthen visualization of trend and volatility.

How are the four trends formed?:
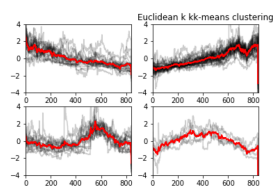
The Euclidean k kk-means clustering plots show the cluster similarity with time series data. This method of clustering the stocks with lowball price options is based on their moving trend. The horizontal axis represented the time, which is the monthly period started from 01/01/2016; the vertical axis is deviation of trend among all stocks. According to price moving trend, those companies can be clustered into 4 groups.

Why do we choose closing price?:

The closing price is the final price at which a security is traded on a given trading day. The closing price represents the most up-to-date valuation of security until trading commences again on the next trading day. In some cases, it strongly affects the opening price the next day. The long-term trend of closing price can reflect the changing pattern of a stock.