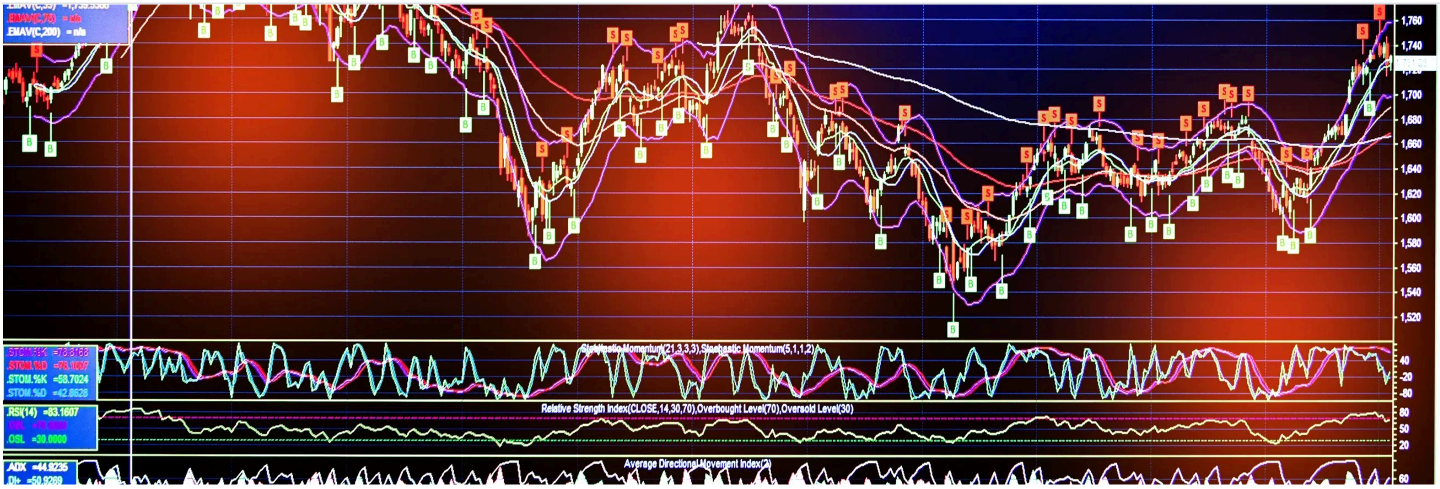

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MARKETS

Markets 101: How to Read Stock Indexes and Securities

Everything you need to know about the 3 top U.S. equities indexes plus gold, oil, and Treasury notes

By Alex Hickey

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Every morning, millions of people around the world wake up, make their coffee, and check a few key numbers—200 points, $1,100 a troy ounce, $40 a barrel. Those numbers provide clues about how the markets are performing each day.

We include five recurring indicators at the top of every Morning Brew newsletter—the S&P, Nasdaq, and Dow Jones indexes, the 10-year Treasury note, and (now) bitcoin—plus one extra financial commodity or security making interesting moves. And after reading this, you won't need an MBA, PhD, or fleece vest to understand what they are, how they work, and why they matter.

> *FYI: Every evening after regular trading hours have closed, the Brew pulls the most up-to-date markets data from Yahoo Finance. Bitcoin prices are pulled around 6pm ET and the change over the last 24 hours is calculated.*

Dow Jones

What it is: The Dow Jones Industrial Average, aka the Dow, is a collection of 30 "blue-chip" U.S. stocks. Blue chip = big, established, and influential companies like Microsoft, JPMorgan, Disney, and McDonald's. The Dow recently updated its roster, swapping ExxonMobil, Pfizer, and Raytheon for Salesforce, biotech Amgen, and manufacturing heavyweight Honeywell.

How it works: The Dow is weighted by share price, so higher-priced stocks have more influence on the index's total value. Price-weighting also means that if the price of *any* stock in the Dow changes by $1, it has the same impact on the index, even though a $1 increase to a stock worth $20 is more significant (relatively) than a $1 change to a stock worth, say, $40.

representing a smattering of U.S. corporate titans, it's not exactly representative.

Nasdaq

What it is: The Nasdaq Composite is an index composed of 2,500+ stocks as well as other equities such as American depositary receipts and real estate investment trusts. This can get a little confusing, because it's not the only Nasdaq: The Nasdaq Composite tracks securities on the Nasdaq exchange.

How it works: Unlike the Dow, the Nasdaq weights by market cap (number of outstanding shares a company has multiplied by the share price), a setup that gives extra-large companies an extra-large impact. The Nasdaq is also heavily skewed toward tech companies, which account for nearly half the index's total value.

Why it matters: As the world's first electronic exchange, the Nasdaq has historically attracted more tech-focused companies. While the index tracks more stocks than the S&P and Dow combined, tech's heavy influence means the Nasdaq doesn't always illustrate how other industries are faring. The index can also be volatile because it includes more small, speculative companies.

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S&P 500

What it is: Investment company Standard & Poor's maintains an index of 500 stocks from the largest companies listed on the Nasdaq and New York Stock Exchange. To be eligible for consideration, companies have to meet certain criteria—including a market cap of $8.2+ billion, a U.S. headquarters, and positive earnings for at least four consecutive quarters. They can be kicked out if they slip.

How it works: Magic, of the mathematical kind. Companies are weighted by their market cap, specifically their float-adjusted market cap (which only counts shares that are theoretically available for retail investors to buy). That means the S&P skews toward larger cap companies, and tech stocks now account for over a quarter of the index's total value.

Why it matters: With 500 stocks covering a broad range of industries, the S&P is widely considered the best indicator of large-cap stocks in the U.S. While the S&P's weighting-by-market-cap method is more common than the Dow's weighting by share price, it does introduce some risk that overvalued stocks will inflate the overall index.

10-Year

What it is: The 10-year Treasury note is a debt instrument the U.S. government issues to fund itself. The Federal Reserve closely watches the "yield" (i.e. the return on investment) as a benchmark for other interest rates.

How it works: The U.S. Treasury issues bonds that are auctioned to investment banks by the Federal Reserve; banks can then sell those bonds to investors. The 10-year matures over—you guessed it—10 years, with interest paid out every six months until the full value is paid out at the end

What it is: Bitcoin is a cryptocurrency that was created in 2009 by a mystery person, or group, who goes by Satoshi Nakamoto. Unlike government-issued currencies, it is "decentralized" and not run by any central authority. New bitcoins are released (aka "mined") on a fixed schedule until the number of tokens caps out at 21 million.

How it works: There is no such thing as a physical bitcoin you can hold in your hand. Bitcoins are completely digital and maintained on a blockchain-based public ledger hosted across a system of computers. The important part: Any sales/transfers or newly created bitcoins must be verified on that ledger, which is transparent and thus virtually impossible to cheat.

Why it matters: Bitcoin, which is often stylized as BTC, is the largest and best-known cryptocurrency. Bullish investors like it because it's an alternative to government-issued currency, it has low transaction fees, and it can be a *very* lucrative investment. But bitcoin's price is highly volatile, which makes it a less stable store of value than something like the US dollar or gold. And because bitcoin is so young, regulators, banks, and businesses are still figuring out how it fits into markets and what rules it needs to play by.

The new, rotating cast of characters

Expect to see the five indicators above mentioned at the top of every newsletter. But for the final, sixth spot, we're changing things up: Each day, we'll feature a commodity or security that's making noteworthy moves.

You can expect to see...

Noteworthy stocks

What it is: A stock is a little sliver or "share" of a company that you can purchase and own. They usually take the form of "common" shares (which have voting rights that can influence some corporate decisions) or "preferred" shares (which don't have voting rights, but do offer an edge when it comes to receiving dividends, or quarterly payments made to shareholders).

How it works: Companies sell shares on a stock exchange through an initial public offering; an IPO helps raise money to fuel more growth. Companies can also sell extra batches of stock to raise even more money later on and lower share prices; many end up selling millions or billions of shares in total. In the market, share prices usually fluctuate based on supply and demand.

Why it matters: Stocks can move with the broader market, but isolated events from earnings reports to product unveils to C-suite shakeups to Elon Musk tweeting can also affect how investors see a company's future growth potential, thus sending prices up or down. We'll occasionally highlight individual stocks and explain what happened to excite or spook investors.

How it works: WTI is the physical commodity behind oil futures contracts traded on the New York Mercantile Exchange. Oil futures = financial instruments that allow investors to buy "abstract oil." When the futures contract expires, that investment is converted into IRL oil, cashed out, or rolled into a future futures contract.

Why it matters: Oil prices are affected by economic conditions, good ol' supply and demand, and geopolitical forces. The coronavirus pandemic caused a historic collapse in prices this spring, and while prices have stabilized, the outlook is shaky.

Gold

What it is: With its use as a commodity tracing back to Ancient Lydian merchants over 2,500 years ago, gold has the most staying power of any indicator on this list. When investors talk about gold prices today, they're most likely referring to the price per ounce of gold bullion (those gold bars bad guys keep in briefcases).

How it works: Gold is priced in U.S. dollars around the world. Investors can buy physical gold in the form of bullion or coins or go for more intangible gold securities, such as futures, ETF shares, or investments in gold mining companies.

Why it matters: In a 21st century economy where currencies aren't pegged to the gold standard and credit cards are the medium of exchange, some investors argue gold is a relic. But others turn to the metal for diversification or as a "safe-haven asset"—something to buy during times of geopolitical or economic uncertainty because it holds onto its value.