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The Market Is Up & I Am Not ... Why?

Remember that the major indices don't represent the entirety of Wall Street.

Provided by Frank DeMaio*

The S&P 500 is up about 10% YTD, why aren't I? If your investments are lagging the broad benchmark, you may be asking that very question. The short answer is that the S&P is not the overall market (and vice versa). Each year, there are money managers, day traders and retirement savers whose portfolios wind up underperforming it.[1]

Keep in mind that the S&P serves as a kind of "Wall Street shorthand." The media watches it constantly because it does provide a good gauge of how things are going during a trading day, week or year. It is cap-weighted (larger firms account for a greater proportion of its value, smaller firms a smaller proportion) and includes companies from many sectors. Its 500-odd components represent roughly 70% of the aggregate value of the American stock markets.[2]

Still, the S&P is not the whole stock market – just a portion of it.

You can say the same thing about the Dow Jones Industrial Average, which includes only 30 companies and isn't even cap-weighted like the S&P is. It stands for about 25% of U.S. stock market value, but it is devoted to the blue chips.[2]

How about the Nasdaq Composite or the Russell 2000? The same thing applies.

Yes, the Nasdaq is large (3,000+ members), and yes, it consists of insurance, industrial, transportation and financial firms as well as tech companies. It is still undeniably tech-heavy, however, and includes a whole bunch of speculative small-cap firms. So on many days, its performance may not correspond to that of the broad market.[2,3]

That also holds true for the Russell, which is a vast index but all about the small caps. (It is actually a portion of the Russell 3000, which also contains large-cap firms.)[2]

If you really want a broad view of the market, your search will lead you to the behemoth Wilshire 5000, which some investors call the “total market index.” You could argue that the Wilshire is the real barometer of the U.S. market, as it is several times the size of the S&P 500 (it includes about 3,700 firms at the moment, encompassing just about every publicly-traded company based in this country. In mid-December, the Wilshire was up about 9% for 2014.[4,5]

One benchmark doesn’t equal the entire market. There are all manner of indices out there, tracking everything from utility firms to Internet and biotech companies to emerging markets. As wonderful or dismal as their performance may be on a given day, week or year, they don’t give you the story of the overall market. Your YTD return may even vary greatly from the gains of the big benchmarks depending on how your invested assets are allocated.

During any year, you will see certain segments of the market perform remarkably well and others poorly. Because of that ongoing reality, you must stay diversified and adopt a long-term perspective as you invest.

Frank DeMaio, CPF®, CFA is a Registered Representative offering securities through UNITED PLANNERS’ FINANCIAL SERVICES OF AMERICA, a Limited Partnership, Member FINRA, SIPC. Frank may be reached at 603-641-1010 or fdemaio@jtdfinancial.com. JTD Financial Services and United Planners’ are not affiliated.*

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