

**THE
STOCK
MARKET
&
INDEX FUND
INVESTING**

Index Fund Investing

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Index Investing

**Index Investing
Definition**

Index Investing

What Is Index Investing?

Index investing is a passive investment technique that attempts to generate returns similar to a broad market index. Investors use this buy-and-hold strategy to replicate the performance of a specific index—generally an equity or fixed-income index—by purchasing the component securities of the index, or investing in an index mutual fund or exchange traded fund (ETF) that itself closely tracks the underlying index.

There are several advantages of index investing. For one, empirical research finds index investing tends to outperform active management over a long time frame. Taking a hands-off approach to investing eliminates many of the biases and uncertainties that arise in a stock picking strategy.

Index investing, as well as other passive strategies, may be contrasted with active investment.

How Indexing Works

Index investing is an effective strategy to manage risk and gain consistent returns. Proponents of the strategy eschew active investing because modern financial theory claims it's impossible to "beat the market" once trading costs and taxes are taken into account.

Since index investing takes a passive approach, index funds usually have lower management fees and expense ratios (ERs) than actively managed funds. The simplicity of tracking the market without a portfolio manager allows providers to maintain modest fees. Index funds also tend to be more tax-efficient than active funds because they make less frequent trades.

More importantly, index investing is an effective method of diversification against risks. An index fund consists of a broad basket of assets instead of a few investments. This serves to minimize unsystematic risk related to a specific company or industry without decreasing expected returns.

For many index investors, the S & P 500 is the most common benchmark to evaluate performance against, as it gauges the health of the U.S. economy. Other widely followed index funds track the performance of the Dow Jones Industrial Average (DJIA) and the corporate bond sector.

Index Investing Methods

Purchasing every stock in an index at its given component weight is the most complete way to ensure that a portfolio will achieve the same risk and return profile as the benchmark itself. However, depending on the index, this can be time-consuming and quite costly to implement.

For instance, to replicate the S&P 500 index, an investor would need to accumulate positions in each of the 500 companies that are inside the index. For the Russell 2000, there would need to be 2000 different positions. Depending on commissions paid to a broker, this can become cost-prohibitive.

More cost-effective ways to track an index involve only owning the most heavily-weighted index components or sampling a certain proportion, say 20%, of the index's holdings. The most cost-effective way to own an index these days is to seek out an index mutual fund or ETF that does all of that work for you, combining the entire index essentially into a single security or share.

Limitations of Index Investing

Despite gaining immense popularity in recent years, there are some limitations to index investing. Many index funds are formed on a market capitalization basis, meaning the top holdings have an outsized weight on broad market movements. So, if Amazon.com Inc. (AMZN) and Facebook Inc. (FB), for instance, experience a weak quarter it would have a noticeable impact on the entire index.

This entirely passive strategy neglects a subset of the investment universe focused on market factors such as value, momentum, and quality. These factors now constitute a corner of investing called smart-beta, which attempts to deliver better risk adjusted returns than a market-cap-weighted index. Smart-beta funds offer the same benefits of a passive strategy, with the additional upside of active management, otherwise known as alpha.

Real World Example of Index Investing

Index mutual funds have been around since the 1970s. The one fund that started it all, founded in 1976, the Vanguard 500 Index Fund has tracked the S&P 500 faithfully, in composition and performance. For its Admiral Shares, the ER is 0.04%, and its minimum investment is \$3,000.

Index Investing

How to Invest in Index Funds

How To Invest In Index Funds

Financial experts recommend index funds as the best investing vehicle for most people because they're low-cost, low-risk choices for growing wealth. Here's how you can get started investing in index funds. Index funds are a type of mutual fund that aim to track the performance of a market

1. Decide on Your Index Fund Investment Goals

Before you start investing in index Funds, you'll want to be clear about your goals, especially when you hope to accomplish them.

"A short time horizon indicates a lower ability to take risk, which would lead you to weight a bond index fund higher than if your time horizon were longer, which affords you the ability to take on more risk and to likely increase your stock allocation.

Remember, more aggressive investments—like equity index funds—offer greater potential returns in exchange for more risk. If you don't have plenty of extra time to ride out market declines, you might be forced to withdraw your money and sell at a loss.

More conservative investments, like bond-based index funds, are better choices for near-term investing. They offer more stable value, but more modest returns. Alternatively, your goal is investing for retirement—a goal that may be decades in the future—stock index funds are a great way to boost your returns over the long term.

2. Pick the Right Index Fund Strategy for the timeline

Once you've settled on your goals and timelines, you can decide which index fund strategy gives you the best chance to reach your goals.

Setting your index fund investing strategy begins by choosing the right asset allocation, or the percentage of your portfolio comprising stocks versus bonds, based on your timeline. In addition, you need to evaluate your appetite for risk, regardless of how long you plan to stay invested.

If you can't stand the prospect of losing any of your money, for example, you might opt for more conservative investments even for a distant goal. You'll have

to add more of your own money, instead of relying on investment growth, to reach your goal, but that compromise might be worth your peace of mind. Here are some guidelines you can start with to tailor your index fund portfolio based on your risk preference and timeline, according to Steven Jablonski, a financial advisor at Informed Family Financial Services:

- Aggressive Risk/Longer Timeline: 75% equities and 25% bonds.
- Moderate Risk/Moderate Timeline: 50-60% equities and 40-50% bonds.
- Conservative Risk/Short Timeline: 25% equities and 75% bonds.

3. Research Potential Index Funds

Index funds take a lot of the burden off of investors by investing in hundreds—or even thousands—of different **stocks** and **bonds**. That means you don't have to worry about picking any one winning stock and instead can benefit from the overall growth of the market or industry your fund is tracking.

That said, you'll want to research which types of indexes you plan to invest in as well as individual funds that track them. Here are some indexes to consider based on the level of risk of you want to take on:

- **Higher Risk.** Broad, large-cap stock-based indexes like the S&P 500 or NASDAQ 1000. You may also consider small-cap indexes that track the Russell 2000 or S&P 600 and offer the chance to benefit from small companies' greater potential for exponential growth. International indexes, like MSCI Emerging Markets and MSCI EAFE, can also fall into a higher risk category due to the more unpredictable nature of less established economies.
- **Lower Risk.** Look to bond indexes like the Bloomberg Barclays U.S. Aggregate Bond Index. For even lower risk, you may consider indexes that only track debt issued by the federal government, like the Bloomberg Barclays U.S. Long Treasury Bond Index or Bloomberg Barclays U.S. Treasury 1-3 Year Bond Index.

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Though most funds tracking a particular index contain the same securities, each may have slightly different percentages of them, which can impact how well they mimic an index's performance.

Keep an eye out for index fund fees, like loads and expense ratios. Sales loads are fees some funds charge just for buying or selling a mutual fund while expense ratios cover the costs associated with running a particular fund.

charge just for buying or selling a mutual fund while expense ratios cover the costs associated with running a particular fund.

While you can largely avoid load fees by shopping around, you'll likely be on the hook for some kind of expense ratio regardless of where you invest. Expense

ratios can vary drastically even between virtually identical funds, so choose investments with histories of good performance and the lowest possible expense ratio.

Be sure to look for any investment minimums, too. Some index funds may require you to put in at least a few thousand dollars to start investing with them. After that minimum initial investment, you're generally able to invest in whatever dollar amounts you want. If you can't find index funds whose minimum initial investment you're able to reach, you might consider exchange-traded funds (ETFs) that track the same index but generally lack any investment thresholds.

You can start your index fund research online with tools made available through companies like Morningstar, a fund rating agency, or even the online brokerage you're planning to use to invest in your index funds.

4. Open an Investment Account

If you don't already have an investment account, you'll need to open one before you can invest in an index fund. You can invest in index funds using a wide variety of account types built for different goals:

- Education savings accounts, such as a 529 Plan
- Retirement accounts, such as an IRA, Roth IRA or 401K
- Taxable brokerage accounts for goals other than retirement

When choosing where to open an account, make sure you look for any sort of account-related fees. Will your brokerage of choice, for example, charge you each time you make a trade? If so, you might be better served finding a brokerage without these fees.

5. Purchase Your First Index Funds

Once your investment account is set up, you can fund the account and make your index fund purchase. Be sure to check any fund minimums and make sure you're ready to invest at least that much.

Your broker will have you complete a trade ticket where you choose how your money is invested. For example, you'll dictate whether you want to make the purchase at the market price, which is the current value the fund is trading at on the open market, or a limit price, which is usually a price lower than the current market price. If you place a limit order, your buy order won't be executed until the fund's value drops to or below your limit price.

Once your trade is completed, your money goes to work in the funds of your choice.

6. Set Up a Plan to Keep Investing Regularly

For most people, buying an index fund isn't a one-time thing. Rather, it's part of an ongoing strategy to save and build wealth for future goals. That means you need a plan to keep investing through a regular purchase plan.

A regular purchase plan has a few benefits for investors. First, you get to capture the power of dollar cost averaging when you set up recurring purchases. Instead of trying to time the market, you'll make regular investments that are agnostic of price. Over time this can decrease the cost you pay per index fund share as well as minimize the risk of buying shares at a high price. Regular, automated investing also has the benefit of making sure you never forget to save for your goals.

You'll also want to set up an investment review schedule to assess your index funds' performance. During these reviews, which are usually no more than once or twice a year, you can also rebalance your portfolio to make sure your asset allocation is still in check to help you reach your goals.

If you'd prefer not to worry about this routine maintenance, you might consider opening your accounts with a robo-advisor, which will manage and rebalance a portfolio of diversified, low-cost index funds for you. While convenient, robo-advisors do cost more than a DIY approach to index fund investing, even if this is still a fraction of a traditional financial advisor's rate.

7. Consider Your Exit Strategy

No one holds onto an investment forever, so it's smart to think about when you'll sell your shares. If you hold your index funds in a taxable brokerage account where you're liable for capital gains taxes on your earnings, look at how long you've owned the index fund you want to sell.

Investments owned for less than one year are subject to short-term capital gains taxes equal to your regular income tax rate. But if you've held an investment for at least a year, you'll only pay long-term capital gains tax, which should be lower than your regular income tax rate. With that in mind, you may be able to minimize your tax burden if you're able to delay cashing out on an investment until you've had it for at least a year.

If you have index funds in a retirement account, on the other hand, you don't have to worry about any capital gains taxes as long as you aren't withdrawing money from your retirement account. You can buy and sell as much as you want within the confines of your 401(k) or IRA without incurring tax consequences. The challenge with taxes comes when you start taking money out of these accounts. To decrease your tax burden on any retirement distributions, you'll probably want to meet with a financial advisor or tax professional to strategize ways to minimize your taxable income each year.

Four Index Funds to Get You Started

If you're looking for some index fund ideas to help you invest better, the following four are a good place to start.

- **Vanguard 500 Index (VOO):** 10 yrs, Life Returns @ 15.47 %
- Tracks S&P 500 index.
- **Vanguard Total Stock Market (VTSAX):** 2 yrs, Life Returns @ ?
- Tracks index of U.S. stocks of all sizes.
- **V, G. Total International Stk. Mkt (VXUS):** 9 yrs, Life @ 5.62%
- Tracks index of global stocks, excluding the U.S.;
- **Vanguard Total Bond (VBTLX):**
- Tracks index of various bonds.
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Vanguard funds are widely regarded as an easy entry point for new index fund investors, but you can find similar funds from other providers, as well. By incorporating different broad categories of stocks along with a fund concentrating on bonds, these four funds let you invest using asset allocation strategies to help you manage risk while getting as good a return as possible.

Let index funds help you get rich.

Index funds offer investors of all skill levels a simple, successful way to invest. If you're interested in growing your money but aren't excited about doing a lot of research, then index funds can be a great solution to achieve your financial goals.

Index Investing

The Three Major Indexes

The Three Major Stock Market Index Funds

- **The Dow Jones Industrial Averages**
- **The Nasdaq Composite**
- **The S & P 500 Index**

Dow Jones Industrial Average

What is the Dow Jones Industrial Average Stock Index?

The Dow Jones Industrial Average (DJI) is a stock index containing 30 of the largest and most important U.S. companies. Created in 1896, it is one of the oldest stock indexes, and it is widely considered a useful measure of the performance of the entire U.S. stock market. It is structured differently than most indexes, measuring the average stock price of the 30 components instead of using the market-cap weighting more common for indexes. The Dow Jones Industrial Average is managed by S&P Dow Jones Indices, part of S&P Global (SPGI).

The Dow Jones Industrial Average is not limited to stocks in the industrials sector, it includes stocks from most sectors and industries, except for utilities and transportation. This index is, in S&P Global's words, a "world-renowned gauge of the U.S. equity market." In other words, the index measures the performance of 30 stocks to reflect the performance of the thousands of stocks in the U.S. market.

How long has the Dow Jones Industrial Average been around?

The Dow Jones Industrial Average was created on May 26, 1896, by Charles Dow, the Wall Street Journal editor who founded Dow, Jones & Company with Edward Jones. Initially the Dow Jones Industrial Average had 12 component stocks. Most were industrial companies, including General Electric. The index reached its current level of 30 stocks in 1928.

Dow Jones companies list

There are 30 stocks in the Dow Jones Industrial Averages.

3M (MMM) American Express (AXP), Amgen(AMGN) Apple(AP), Boeing (BA), Caterpillar (CAT), Chevron (CVX), Cisco Systems (CSCO), Coca Cola (KO), Disney (DIS), Dow (DOW), Goldman Sachs (GS), Home Depot (HD), Honeywell International (HON), IBM (IBM), Intel (INTC), Johnson & Johnson (JNJ), JPMorgan Chase (JPM), McDonald's (MCD), Merck (MRK), Microsoft (MSFT), Nike (NKE), Procter & Gamble (PG), Salesforce (CRM), Travelers (TRV), United Health Group (UNH), Verizon (VZ), Visa (V), Walmart (WMT), Walgreens Boots Alliance (WBA).

How do you calculate the value of the Dow Jones Industrial Average?

The Dow Jones Industrial Average is an average of the prices of all 30 of its component stocks. When it was first created, calculating the average was simple: Add up the share prices of the components, then divide by 12. But a dozen decades later, mergers, spinoffs, stock splits, and removals from and additions to the index require a committee that manages any adjustments, referred to as the "Dow divisor," to prevent the index value from fluctuating wildly when changes occur. This divisor adjusts for those factors that aren't directly related to actual share price changes of the component companies.

The end result is that a dollar-amount change in any Dow Jones Industrial Average component affects the price of the index equally, which was Charles Dow's original vision.

How can you invest in the Dow Jones Industrial Average?

There are several ways to invest in the Dow Jones Industrial Average and its component stocks

The benefit of the ETF –exchange traded fund, a fund that trades on a stock exchange -- is simplicity. You won't have to manage 30 separate stocks, such as by making changes when the index changes (though historically an index changes only every couple of years on average). There's a cost: The expense ratio-- fees charged by the fund manager -- is 0.16%, or about \$1.60 per year for every \$1,000 in market value.

But with 30 components, it's far simpler to build your own Dow Jones Industrials basket than to do the same for other major indices designed to reflect overall stock market performance, as they often contain hundreds of stocks. Since most brokers don't charge commissions on trades and many allow fractional investments -- meaning you can buy partial shares -- it's not as cost prohibitive to do as it once was.

Funds to consider:

SPDR Dow Jones Industrial Average Dividend (DIA) 22 yrs.

1998—Assets 29 Billion—17 up 5 down—YTD 10.97—Life Returns 8.80%

Invesco Dow Jones Industrial Average Dividend (DJD) 05 yrs.

2015—Assets 145 Million---YTD 15.21—Life Returns 13.85

The Nasdaq Composite Index

Many investors know the Nasdaq as a tech-heavy stock index. However, it is often the least understood of the major indexes in terms of composition and how it works.

With that in mind, here's an overview of the Nasdaq Composite Index. We'll discuss how it works and how you can invest in it if you decide it's a good fit for your investment strategy.

The Nasdaq Composite Index defined

The Nasdaq Composite is a stock market index that consists of the stocks that are listed on the Nasdaq stock exchange. To be included in the index:

- A stock must be listed exclusively on the Nasdaq market.
- The stock must be a common stock of an individual company, so preferred stocks, exchange-traded funds (ETFs), and other types of securities are excluded.
- American depository receipts (ADRs), real estate investment trusts (REITs), and shares of limited partnerships are eligible, however.

That's why there are so many stocks included in the Nasdaq Composite and why the number of stocks in the index changes often. The index is designed to be representative of the entire Nasdaq stock market, not just the largest companies.

The Nasdaq Composite is one of the most widely followed stock indexes in the U.S. and is usually one of the three "headline" indexes that market commentators often cite -- along with the Dow Jones Industrial Average and the S&P 500.

Because the Nasdaq has a high concentration of companies in the technology sector -- particularly of the younger, fast-growing variety -- the Nasdaq Composite Index is often considered to be a good barometer of how well the tech market is performing.

How does the Nasdaq Composite Index work?

Like most major stock indexes, the Nasdaq Composite is weighted by the market capitalizations of its underlying components. This means that when larger companies' stocks move, it has a greater effect on the performance of the index than when the stocks of smaller companies move.

For example, a Nasdaq-listed common stock with a \$100 billion market cap would have twice the influence on the index as a company with a \$50 billion market cap, assuming an equal movement in both stocks' prices.

The level of the Nasdaq Composite Index fluctuates continuously during stock market trading hours.

How many companies are in the Nasdaq?

There are 3,097 Nasdaq-listed securities as of April 2021, but, as mentioned previously, not every type of security is included in the Nasdaq Composite index. For example, the portion of the Nasdaq that consists of exchange traded funds (ETFs) is not included.

According to the fact sheet for the Fidelity Nasdaq Composite Index Fund (FNCMX), a mutual fund that tracks the index, there were a total of 2,485 different stocks issued by 2,444 companies in the index as of Dec. 31, 2020. (Some companies have more than one class of stock.)

However, it's important to know that because the index is weighted by market capitalization, and because some of the largest companies in the world are Nasdaq-listed, the index is rather top-heavy. In fact, the top 10 stocks in the Nasdaq Composite account for one-third of the index's performance. With that in mind, here's a look at the 20 largest stocks in the Nasdaq Composite:

20 largest stocks in the Nasdaq Composite:

Apple (AAPL) Microsoft (MSFT) Amazon (AMZN) Facebook (FB) Alphabet Class C (GOOG) Alphabet Class A (GOOGL) Tesla (TSLA) NVIDIA (NVDA) PayPal Holdings (PYPL) ASML Holdings (ASML) Intel (INTC) Comcast (CMCSA) Netflix (NFLX) Adobe (ADBE) Cisco Systems (CSCO) PepsiCo (PEP) Broadcom (AVGO) Texas Instruments (TXN) Pinduoduo (PDD) T-Mobile US (TMUS)

How to invest in the Nasdaq Composite Index

The easiest way to invest in the Nasdaq Composite Index is to buy an index fund, which is a mutual fund or ETF that passively tracks the index. An index fund is designed to invest in all of the components of a stock index and in the same weights as they are given in the index itself.

The idea is that, over time, index funds will deliver virtually identical performance (net of fees) as the index they track.

For example, Fidelity offers two investment vehicles that track the Nasdaq Composite. On the mutual fund side, the Fidelity Nasdaq Composite Index fund (mentioned above) has a 0.29% net expense ratio and no minimum investment. Fidelity also offers its Nasdaq Composite Index ETF (ONEQ), which trades like any other stock and has a lower expense ratio of 0.21%. Like the mutual fund, there's no minimum investment required, but it's worth pointing out that the price of a single share is about \$525 as of April 2021, so you'll need to invest at least that much or choose a broker that allows you to buy fractional shares of stock.

Three Funds to consider:

Fidelity Nasdaq Composite Index Fund (FNCMX) 17 yrs.

2003—11 Billion—YTD@ 8.03%--Life Return @ 13.18%

Fidelity Nasdaq Composite Index Tracking Stock (ONEQ) 17 yrs.

2003—4 Billion—YTD@ -3%--Life Return @ 12.50%

Invesco QQQ Trust (QQQ) 21 yrs.

1999—164 Billion—YTD @ 7.68%--Life Return @ 9.61%

Nasdaq 100: The other Nasdaq stock index

There's another Nasdaq-based index that is widely followed: the Nasdaq 100. This index, which is also market-cap weighted, is often confused with the Nasdaq Composite, but there's a big difference that's important to note.

Specifically, instead of including all of the common stocks listed on the Nasdaq exchange, the Nasdaq 100 only includes the stocks of the 100 largest nonfinancial companies listed there. The 100 companies in the Nasdaq 100 make up more than 90% of the weight of the Nasdaq Composite Index.

Just like with the Nasdaq Composite, there are mutual fund and ETF products that allow investors to track the Nasdaq 100 Index in their portfolio, most notably the Invesco QQQ (QQQ) ETF, which invests proportionally in the 100 index components for a low expense ratio of 0.20%.

The S&P 500 Index

When it comes to the major U.S. stock indexes, none is more highly regarded as a barometer of the overall stock market's performance and an indicator of how large corporations are performing than the S&P 500 index.

With that in mind, here's what all investors should know about what the S&P 500 index is, how it works, how you can invest in it, and why doing so could be a smart move for you.

What is the S&P 500 index?

The S&P 500 (also known as the Standard & Poor's 500), a registered trademark of the joint venture S&P Dow Jones Indices, is a stock index that consists of the 500 largest companies in the U.S. It is generally considered the best indicator of how U.S. stocks are performing overall.

From another angle, the S&P 500, as an index, is a statistical measure of the performance of America's 500 largest stocks. In this context, the S&P 500 is a common benchmark against which portfolio performance can be evaluated.

The S&P 500 index is weighted by market capitalization (share price times number of shares outstanding), which means that a company's valuation determines how much influence it has over the index's performance. Each listed company doesn't simply represent 1/500th of the index. Massive companies such as Apple (AAPL) and Amazon (AMZN) have a greater impact on the S&P 500 index than relatively smaller companies like Macy's (M) and Harley-Davidson (HOG).

One key point to know is that although these are 500 large companies, there's a wide range. Several of the largest companies in the index have market caps in excess of \$1 trillion. The value of the S&P 500 index fluctuates continuously throughout the trading day, based on the weighted performance market data of its underlying components.

Which companies are in the S&P 500 index?

The S&P 500 index is composed of 505 stocks issued by 500 different companies. There's a difference in numbers here because a few S&P 500 component companies issue more than one class of stock -- for example, Alphabet Class C

(GOOG), and Alphabet Class A (GOOGL) stock are both included in the S&P 500 index.

Obviously, it wouldn't be practical to list all of the S&P 500 companies here. But because the S&P 500 is weighted by market cap, its performance is mostly driven by the performances of the stocks of the largest companies.

With that in mind, here's a look at the 10 largest companies of the S&P 500 index as of March 2021. This list and its sequence can, and probably will, change over time.

1. Apple (AAPL)
2. Microsoft (MSFT)
3. Amazon (AMZN)
4. Facebook (FB)
5. Alphabet Class A (GOOGL)
6. Alphabet Class C (GOOG)
7. Berkshire Hathaway Class B (BRK.B)
8. Tesla (TSLA)
9. JPMorgan Chase (JPM)
10. Johnson & Johnson (JNJ)

Why use the S&P 500?

You may be wondering why the S&P 500 is considered so useful as a market and economic indicator. Because the S&P 500 consists of a broad basket of stocks without too many small or obscure companies, it contains the companies the most widely owned by individual investors. The 500 companies account for roughly 80% of the overall value of the stock market in the U.S.

S&P 500 versus Dow Jones Industrial Average

The Dow Jones Industrial Average is a price-weighted index, meaning that the companies with the highest stock prices have the most influence on the index regardless of their valuations. The Dow also only lists 30 companies and excludes some of the largest stocks in the market -- for example, Amazon, Alphabet, and Berkshire Hathaway.

Top S & P 500 Index Funds

Known as the S & P 500 is an index with 500 of the top companies in the U.S. Stock Market and represents a good indication of movement in the US market as a whole. Listed below are some ETF's and Mutual Funds for you to consider investing in.

ETF's:

SPDR S & P 500 Fund (SPY) 27 yrs.

Inception 1993—Assets--274 Billion—Yrs. up 22/5 down---YTD 9.62%—10.28%

SPDR Port. S & P 500 (SPLG) 15 yrs.

Inception 2005--Assets--10 Billion—Yrs. up 13/2 down-- YTD 9.67%—Life 10.48%

Invesco S & P 500 Equal Weighted (RSP) 17 yrs.

Inception 2003--Assets 26 Billion--Yrs. up 13/ 4 down-YTD—13.66%---Life 11.87%

iShares Core S & P 500 (IVV) 20 yrs.

Inception 2000—Assets 271 Billion—Yrs. up 16/4 down—YTD 9.58%--Life 7.09%

Mutual Funds:

Vanguard S & P 500 Index Fund Investor Shares (VFINX) 43 yrs.

Inception 1976—Assets 196 Billion—Yrs. up 35/8 down—YTD 9.51%---Life 11.46%

T. Rowe Price Equity Index Fund (PREIX) 30 yrs.

Inception 1999—Assets 33 Billion—Yrs. up 25/5 down—YTD 8.49%---Life 10.35%

Schwab S & P 500 Index Fund (SWPPX) 17 yrs.

Inception 1997—Assets 33 Billion—Yrs. up12/5 down—YTD 9.53%---Life 8.83%

Vanguard 500 Index Admiral Shares (VFIAX) 20 yrs.

Inception 2000—Assets 211 Billion—Yrs, up 16/4 down—YTD 9.54%--Life 7.66

Index Investing

Seven Fidelity Index Funds to Consider

7 Fidelity Index Funds to Ground Your Portfolio

Index funds can help you build a solid portfolio before you start investing into unknown territory.

Before you branch out and invest in individual stocks or other investments, make sure to ground your portfolio with a dependable base of core investments. It is important that your portfolio's foundation has a good allocation of stocks and fixed income to weather turbulent economic conditions and markets. This is where a collection of index funds can easily provide that foundation for investors.

Having a solid foundation of funds is important. That's why index funds in your allocation for stocks and fixed income And a collection of mutual fund portfolios, including specific funds of individual families like Fidelity and Vanguard.

Here is a list of seven index funds from Fidelity for a well-grounded portfolio foundation.

Stocks, Fixed Income and Cash

Some experts suggest allocating 56% of your portfolio to stocks and 44% to fixed-income investments. In that 44% they recommend 11% in cash. This allocation is different than the 60%/40% balance typical of asset allocations for many managers.

Let's start with stock allocations.

- Fidelity High Dividend ETF (FDVV)
- Fidelity MSCI Real Estate ETF (FREL)
- Fidelity US Utilities ETF (FUTY)
- Fidelity Select Software & IT Portfolio Open-End Fd. (FSCSX)
- Fidelity MSCI Health Care Index ETF (FHLC)
- Fidelity High Income Fund (SPHIX)
- Fidelity Intermediate Municipal Income Fund (FLTMX)

Fidelity High Dividend ETF (FDVV) 5 yrs.

2016, 806 M, 4 up/ 0 Dn., YTD @ 14.14%, Life return @ 12.65 %The

starting point for core U.S. stocks with Fidelity is the Fidelity High Dividend ETF. This is an indexed exchange-traded fund that is supposed to track Fidelity's Core Dividend Index. This index focuses on U.S.-listed stocks which pay higher average dividends. This is a more measured approach to the S&P 500 as the higher weightings on dividends makes the fund less vulnerable to downturns and volatility. This ETF is newer to the market as it debuted in September 2016. And since then — particularly during 2019 — the more tech-heavy S&P 500 outpaced the more dividend-focused ETF. The view is that they want to achieve a lower volatility and lower risk return over time, and not to have a base which is too heavy on a particular sector, and that makes the Fidelity High Dividend ETF a good start to building a grounded portfolio.

Fidelity MSCI Real Estate ETF (FREL) 6 yrs.

2015, 1.4 Billion, 3 up/ 2 Dn., YTD @ 11.23%, Life return @ 6.27%

Next allocation is real estate investment trusts (REITs). With index funds, you can accomplish this with the Fidelity MSCI Real Estate ETF. REITs are in very specific sectors such as retail. With low inflation, funding costs are reduced for overall sustained profitability for most other REITs in the market including for data transmission towers and data center REITs.

And REITs are mainly focused on U.S.-centric assets away from the global economic troubles. Low inflation and largely dependable revenues feed more valuable dividend income.

For all of 2019 and into 2020, the Fidelity REIT ETF was generally outperforming the S&P 500 on a very consistent basis and with a dividend yield of 4.9%, the ETF out pays the S&P 500 by a significant margin. With consistency based on real assets and defended dividend income, REITs in the ETF are a great way to achieve measured growth with higher income — aiding a well-grounded portfolio.

Fidelity U.S. Utilities ETF (FUTY) 7 yrs.

2013, 1 Billion, 6 up/1 Dn., YTD @ 4.35%, Life return @ 10.74%

Now we move to another traditionally defensive source for growth and income in the U.S. market with utilities. Through index funds this is done with the Fidelity U.S. Utilities ETF. The ETF attempts to track the MSCI USA IMI Utilities Index, which in turn tracks larger U.S. utility stocks. Combining dependable revenues and profit margins with added growth and income makes for a great way to generate rising income and dividends with growth over time. The return for FUTY since coming to the market in October 2013 is a positive 82.3%, which is line with the return for the S&P 500. However, FUTY has been less volatile Like for REITs, FUTY has a much better yield than the general S&P 500 at 3.6%.

Select Software & IT Open-End Fund (FSCSX) 35 Yrs.

1988, 12 Billion, 31up/4 Dn. YTD@7.45%, Life return@ 17.07%

Now we come to a more exciting part of the U.S. market — information technology. Technology has always been a big growth engine for the U.S. economy, and the stocks in this segment reflect optimism for higher returns. We accomplish this allocation in index funds with the Fidelity Select Software & IT Portfolio Open-End Fund which follows the MSCI World Software & Services Index.

Technology is the alchemy of the market. Whether products come from silicon or the minds of app and software developers, profits can be achieved in momentous amounts. But not all new technology works, and there are always new products and services making for volatile markets. The technology market has been a good one for a long time, and FSCSX has turned in a return over just the past trailing 10 years of 569.5%. It has outpaced the S&P 500 more than two or three times. Technology has become one of the go-to sectors — continuing to outpace the general market. This shows how FSCSX can help build a grounded portfolio.

Fidelity MSCI Health Care Index ETF (FHLC) 7 Yrs.

2013, 2.5 Billion, 6 up/1 Dn., YTD@ 3.23%, Life return @ 13.96%

In the index fund world, Fidelity has its Fidelity MSCI Health Care Index ETF. The ETF and the underlying index have the sector well-covered. FHLC has returned 116.3% since coming to the market back in 2013. This performance is superior to that of the S&P 500.

The index fund's outperformance is particularly visible this year as healthcare becomes vital to the economy and markets. And FHLC even has a slightly better yield than the general S&P 500. The combination of growth and income from healthcare provides another foundation block for your grounded portfolio.

Fidelity High Income Fund (SPHIX) 30 Yrs.

1990, 8 Billion, 25up/5Dn., YTD@ 0.78%, Life return@ 8.26%

The U.S. has very low inflation, and that inflation faces very few threats. This has led to lower yields and higher bond prices overall. But I continue to advocate for corporate bonds and municipal bonds as part of a well-grounded portfolio. Corporate bonds are gaining immense traction with the Fed's bond-buying program. Plus, more institutional investors are doing their credit analysis of businesses and bolstering their buying, resulting in higher bond prices. The allocation to this market through index funds is in the Fidelity High Income Fund. This open-end fund that reportedly attempts to track the ICE Bank of America High Yield Index has returned 77.2% over the trailing 10 years. That significantly outpaces the general U.S. bond market as tracked by the Bloomberg Barclays U.S. Aggregate Index.

**Fidelity Intermediate Municipal Income Fund (FLTMX) 43 Yrs.
1977, 9.5 Billion, 36up.7 Dn., YTD @ 0.15%, Life return @ 5.37**

Then for municipal bonds you have the Fidelity Intermediate Municipal Income Fund. This is an open-end fund that supposedly tracks the Bloomberg Barclays Municipal Bond Index.

Municipal bonds have been gaining like their corporate peers. Tax revenues are up, aiding the credit of issuers. Low inflation aids bonds as well. And issuance has been muted as many issuers have not had the need or the political will to sell more bonds.

FLTMX's return holds up well against the U.S. Aggregate Bond Index done by Bloomberg Barclays over the past trailing 10 years. Municipal bonds have the best credit history of any bond sector besides U.S. Treasury bonds. And while some are questioning the budget strife that is and will challenge state and local authorities, Fed lending and muni bond buying will go far for this market.

And note, even if you invest in qualified investment accounts, they still recommend this open-end fund for total return — and not just for tax-free income — as the municipal bond market is a value right now.

Index Investing

International and Global Index Funds

Four International Index Funds

Foreign stocks represent an attractive option for investors who wish to diversify their portfolios, with brokers ready to assist in these foreign investments. Still, it's worth noting these international index funds carry their own special risks, ranging from currency-related to political, and can pose liquidity and due diligence problems for retail investors. Index funds that are global in scope and follow a passive investment approach and provide cost-effective means of investing overseas. Here are four of the best international index funds. All info is current as of May 2020.

Fidelity International Index Fund (FSPSX) 9 yrs.

2011, Assets \$25.5 billion, 6 yrs up, 3 yrs dwn, ytd @ 6.33, Life returns @ 5.87%

The Fidelity International Index Fund tracks the performance of the MSCI Europe, Australasia, Far East Index (EAFE), which is a broad index that represents the performance of foreign developed-market stocks. The fund uses sampling techniques to attain investment results similar to those of the underlying index. European stocks have the largest allocation at 61%, while Japanese equities account for about 25% of the fund's assets. The fund provides large exposure to financial and industrial stocks, which have 15.72% and 14.19% allocations respectively. The fund's portfolio is widely diversified; its top 10 holdings account for only about 12.55% of its assets.

Schwab International Index Fund (SWISX) 11 Yrs.

2009, \$5.9 billion, ytd. @ 7.48, Life returns @ 6.63%

The Schwab International Index Fund also seeks to track the performance of the MSCI EAFE Index. While European and Japanese companies line the top of this fund's portfolio, approximately 16% are invested in the financial services sector while 15% follow in healthcare, and a little under 15% in industrials. Like other international equity stocks, the fund exposes investors to foreign currency fluctuations. The fund has one of the lowest net expense ratios among its peers and an exceptionally low turnover ratio of 5%, making it highly tax efficient. Morningstar has awarded the fund a bronze analyst rating and a four-star overall rating. The fund has no load fees and comes with a minimum investment requirement of just \$1.

Pax MSCI EAFE ESG Leaders Index Fund (PXINX)

AUM: \$568 million, NAV: \$8.83, Net expense ratio: 0.74%

The Pax MSCI EAFE ESG Leaders Index Fund (formerly the MSCI International ESG Index Fund) tracks the performance of the MSCI EAFE ESG Index, which is a member of the MSCI Global Sustainability Indexes. The index provides exposure to companies with high environmental, social and governance performances relative to their sector peers. The fund's portfolio consists of a mixture of large- and mid-cap foreign stocks with a high geographical concentration in Japan--approximately 26.4% of assets. About 16.1% of the fund's assets are allocated each to financial stocks and industrials, while health care equities have a 14.4% allocation.

V. G. Developed Mkts Index Fd. Admiral Shares (VTMGX)

1999, \$111.9 billion, 13 yrs. up & 8 dwn, YTD @ 6.79%, Life returns @ 4.87%

The Vanguard Developed Markets Index Fund tracks the performance of a benchmark index that measures the investment return of stocks issued by companies located in Canada and the major markets of Europe and the Pacific region. In 2014, Vanguard merged two of its foreign equity funds to form the Vanguard Developed Markets Index Fund. The fund has an exceptionally low turnover ratio of 2.4%, making this fund highly tax-efficient for its investors. The fund mainly invests in large- and mid-cap stocks of developed markets.

3 Global Index Funds

Most mutual fund families now have global index funds that follow indexes based on foreign and non-U.S. investments. Less common are global funds that combine U.S. investments with international investments. Investors can create the same asset mix by allocating funds between U.S. index funds and international index funds. Three notable global index funds follow world stock indexes. These three funds all have low costs to investors and have had solid returns..

Vanguard Total World Stk Index Fd. Admiral Shares (VTWAX)

The Vanguard Total World Stock Index Fund Admiral Shares is designed to give investors exposure to all of the world's common stock markets. As of July 21, 2020, the fund held \$19.6 billion in assets covering 8,734 securities in developed and emerging markets.¹

The fund seeks to track the performance of the FTSE Global All Cap Index. The index is made up of large-, mid- and small-cap stocks from around the world. Approximately 47 countries are represented, including both developed and emerging markets.

Northern Global Sustainability Index Fund (NSRIX)

The Northern Global Sustainability Index Fund puts a twist on global index investing by bringing environmental, social and governance (ESG) criteria into the decision-making process. The fund uses the MSCI World ESG Leaders Index as a performance benchmark. The 761 companies in the index are large- and mid-cap companies that meet standards pertaining to their social responsibility, ethics and treatment of the environment.⁴ There is a 2% redemption fee, but that only applies to investors who liquidate their investment in less than 30 days.⁵

AQR Global Equity Fund Class I (AQGIX)

The AQR Global Equity Fund is not an average mutual fund. Individuals must invest a minimum of \$5 million. Investors who work with investment advisors that have a relationship with AQR Funds may face lower minimums as set by their financial advisors.⁶ **So forget this fund!!!** .

Index Investing

Eight Index Funds With Low Fees

8 Index Funds With Ultra-Low Fees

Eight index funds with low fees to consider

In the past several months, index funds, including exchange-traded funds (ETFs), have witnessed record-breaking capital inflows. According to State Street (NYSE:STT), “US-listed ETFs are off to their best start to a year ever, totaling \$152 billion through the first two months of 2021.” Put another way, investors are showing real confidence in the markets. With the next round of stimulus checks, there could even be new highs in the markets. Therefore, today’s article introduces eight of the best index funds with ultra-low fees.

Currently, there are over 2,200 U.S.-registered ETFs stateside, all of which track a stock index, a commodity, bonds or a basket of assets. There are differences between index funds and ETFs. However, the market typically uses them interchangeably. For instance, ETFs trade on exchanges just like shares. But index funds are usually bought directly from the fund manager. Expenses and year-end tax consequences are other areas of difference.

With that information in mind, here are 8 robust index funds with ultra-low fees:

- Fidelity MSCI Consumer Staples Index ETF ([FSTA](#))
- Fidelity Total Bond ETF ([FBND](#))
- Health Care Select Sector SPDR Fund ([XLV](#))
- Invesco Dow Jones Indust. Average Dividend ETF ([DJD](#))
- iShares Russell Top 200 Growth ETF ([IWK](#))
- Schwab Emerging Markets Equity ETF ([SCHE](#))
- Schwab US REIT ETF (NYSEARCA:[SCHH](#))
- VG Div. Appreciation Index Fd. Shares ([VIG](#))

**Fidelity MSCI Consumer Staples Index (FSTA) 7 yrs.
2013, 178 Million, 6yr, up/1 down, YTD. @ 3.84% Life @ 9.87%**

The Fidelity MSCI Consumer Staples Index ETF invests in the consumer-staples sector. With 99 holdings, FSTA tracks the returns of the MSCI USA IMI Consumer Staples Index. The fund began trading in October 2013 and has around \$788 million in net assets. According to the sub-sectoral breakdown of the ETF, beverages (23.39%) and household products (22.31%) make up the highest portions, followed by food and staples retailing sector, which has a 20.24% slice. Additionally, the top 10 names make up over 60% of all holdings.

Fidelity Total Bond ETF (FBND) 6 yrs.

2014, 2 Billion, 4 up/2 Dn, YTD. @ -2.42%, Life return @ 3.83%

Many investors wonder if bond returns will be negatively affected if interest rates increase in the coming quarters. Although future bond market performance is not always easy to predict, most financial planners concur that long-term portfolios could benefit from exposure to bond funds to collect regular income. The Fidelity Total Bond ETF provides diversification in the fixed income space and offers current income. The fund invests in government, mortgage, investment-grade corporate and junk bonds. About 85% of the holdings come from the U.S. FBND, which tracks the Bloomberg Barclays Aggregate Bond Index, has 1,403 holdings. Since its inception in October 2014, assets under management have reached \$1.7 billion. The large U.S. allocation of the fund is likely to appeal to many investors, as international bonds typically offer lower yields and inconsistent dividends.

Health Care Select Sector SPDR Fund(XLV) 22yr

1998, 24 Billion, 17 up/5 Dn., YTD. @ 4.33%, Life return @ 9.97%

Our next choice in this list is the Health Care Select Sector SPDR Fund, which mostly focuses on life sciences and biopharma firms. Since its inception in December 1998, funds under management have grown close to \$24 billion. XLV, which tracks the returns of the Health Care Select Sector Index, has 63 holdings.

Invesco Dow Jones Indust. Average Div. (DJD) 5

yrs. 2015, 145 Million, 5 up/0 Dn., YTD @ 15.21%, Life return @ 13.85%

Record-low interest rates have brought investor attention to dividend funds. Therefore, our next choice is the Invesco Dow Jones Industrial Average Dividend ETF. The fund gives access to dividend-paying companies in the DJIA. It is based on the Dow Jones Industrial Average Yield Weighted Index, which focuses on businesses with consistent dividend payments over the past year.

iShares Russell Top 200 Growth ETF (IYW) 11 yrs.

2009, 37 Billion, 10 up/1 Dn., YTD @ 7.33%, Life return @ 17.95%

Our next fund, the iShares Russell Top 200 Growth ETF, invests in large capitalization businesses. IYW, which has 106 holdings, tracks the returns of the Russell Top 200 Growth Index and has net assets of \$3.44 billion. Additionally, about half of the businesses are in information technology (IT), followed by consumer discretionary (17.76%), communication (12.79%) and healthcare (11.8%). Close to 55% of the assets are in the top 10 stocks.

Schwab Emerging Markets Equity (SCHE) 20 yrs.

2012, 9 Billion, 6 up/4 Dn., YTD @ 3.85%, Life return @ 4.48%

The Schwab Emerging Markets Equity ETF invests in large cap and mid-cap emerging market firms. Since its inception in January 2010, funds have grown to about \$9 billion. SCHE, which tracks the FTSE Emerging Index, has 1,543 holdings. The top 10 names comprise around a third of assets. Financials have the largest sectoral weighting with 20.07%. Then come consumer discretionary (18.52%), IT (15.37%) and communication services (11.75%) firms. Trailing P/E and P/B ratios are 18.97 and 2.15, respectively. In the case of a potential profit-taking, long-term investors would find better value below \$30. Personally, I like the globally diversified nature of this low-cost fund.

Schwab US REIT ETF (SCHH) 9 yrs.

2011, 5 Billion, 7 up./2 Dn., YTD @ 10.66%, Life return @ 7.82%

Now that the Fed is likely to allow inflation to edge up higher, investors are looking for assets appropriate for a higher-inflation environment. One asset class that could pique many individuals' interest is real estate. The Schwab US REIT ETF provides access to a broad range of real estate investment trusts (REITs) stateside. It began trading in January 2011, and net assets are around \$5 billion. SCHH, which has 144 holdings, tracks the returns of the Dow Jones Equity All REIT Capped Index. In terms of subsectors, residential, specialized, industrial, office, retail, healthcare and leisure REITs are held in the fund. However, the ETF does not invest in mortgage REITs (mREITS). The top 10 names constitute around 40% of the ETF. Those investors who are looking for passive income in 2021 and are bullish on REITs should keep the fund on their radar and buy the dips of this cost-efficient fund.

VG Dividend Appreciation Fd ETF Shares (VIG) 12 yr

2008, 15 Billion, 9 up/3 Dn., YTD @ 7.21%, Life return @ 9.83%

We conclude our discussion of index funds with another dividend fund. The Vanguard Dividend Appreciation Index Fund ETF Shares tracks the returns of the NASDAQ US Dividend Achievers Select Index. It focuses on businesses with a solid record of increasing their dividends year-over-year. Analysts regard dividend growth as an important quality factor.

VIG began trading in April 2006 and has a net asset total of \$63.2 billion. In terms of sectors, we see consumer discretionary with 22.5%, followed by industrials (21.1%), healthcare (15.1%) and technology (12.9%). The fund has 212 holdings, and the top 10 names make up about 35% of net assets. Companies whose dividend grow consistently are regarded as safe havens in volatile markets. Therefore, businesses in VIG have increased annual dividends for at least 10 consecutive years. Any potential decline toward \$130 would improve the margin of safety.

U.S. Stock Market Indexes

A stock market index is a hypothetical portfolio of investment holdings that represents a segment of the financial market.

The three most popular stock indexes for tracking the performance of the US market are listed below along with funds you might consider investing in.

Dow Jones Industrial Average:

The Dow Jones Industrial Average measures the stock performance of 30 large companies listed on stock exchanges in the United States.

SPDR Dow Jones Industrial Average Dividend (DIA) 22 yrs., Life return @ 8.80%
Invesco Dow Jones Industrial Average Dividend (DJD) 10 yrs., Life @ 13.95

The Standard and Poor's 500 Index:

Known as the S & P 500 is an index with 500 of the top companies in the U.S. Stock Market and represents a good indication of movement in the US market as a whole.

SPDR S&P 500 Fund (SPY) 27 yrs., Life return @ 10.28
Invesco S&P Equity Weighted ETF (RSP) 17 yrs., Life return @ 11.87 Vanguard
S&P 500 Index Fund Investor Shares (VFINX) 43 yrs., Life return@ 11.46%
T.Rowe Price Equity Index Fund (PREIX) 30 yrs., Life return@ 10.35%

The Nasdaq Composite Index:

The Nasdaq Composite index is a market-capitalization-weighted index of all the stocks traded on the Nasdaq stock exchanges. Although this index is known for its large portion of technology stocks, it does include some securities from other industries as well.

Fidelity Nasdaq Composite Index Fund (FNCMX) 17 yrs., Life return @ 13.18%
Fidelity Nasdaq Composite Index Tracking Stk (ONEG) 17 yrs., Life @ 12.50%
Invesco QQQ Trust (QQQ) 21 yrs., Life return @ 9.61%

The Bottom Line:

Indexes play an important part in the overall analysis of the U.S. equity market. Indexes and their movements provide a great deal of insight into the economy, the investing public's risk appetite, and the trends for investing diversification. In general, understanding the nuances of their construction and composition can be essential for making all types of investment decisions.