

## Investing in the Marketplace



Prudential Retirement

### Did you know...

...there is even an **index** that purports to track investor anxiety? Dubbed “The Fear Index,” the proper name of the Chicago Board Options Exchange’s index is the **VIX Index**, and measures the market’s expectation of volatility over the next 30 days.

When you hear people talk about “the market,” you might think we agree on what that means. Truth is, there are many indexes that represent differing segments of the market. And these indexes don’t always move in tandem. Understanding some of the key ones can help you diversify your investments to better represent the economy as a whole.

The **Dow Jones Industrial Average** (The Dow) is one of the oldest, most well-know indexes and is often used to represent the economy as a whole. Truth is, though, The Dow only includes 30 stocks of the world’s largest, most influential companies. Why is it called an “average?” Originally, it was computed by adding up the per-share price of its stocks, and dividing by the number of companies.

The **Standard & Poor’s 500 Index** (made up of 500 of the most widely-traded U.S. stocks) is larger and more diverse than The Dow. Because it represents about 70% of the total value of the U.S. stock market, the S&P 500 is a better indication of how the U.S. marketplace is moving as a whole.

Sometimes referred to as the “total stock market index,” the **Wilshire 5000 Index** includes about 7,000 of the more than 10,000 publicly traded companies with headquarters in the U.S. Because it includes stocks from every industry, it can provide an even better reflection of U.S. stock market direction.

It’s true that technology stocks are traded on the **Nasdaq Composite Index**. But its 5,000-plus companies—not all of which are headquartered in the U.S.—include large and small firms from the financial, industrial, insurance, and transportation sectors, as well as many speculative companies with small market capitalizations.





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As you might imagine, the **Russell 2000 Index** is made up of the 2,000 smallest stocks in the Russell 3000, an index of the 3,000 largest publically-traded U.S. companies (based on market capitalization). As such, the Russell 2000 is often regarded as a good indicator of the daily performance of small companies in the marketplace.

While none of these indices is available to invest in directly, understanding these key indexes can do more than help you diversify your own investments. They can provide a yardstick to help gauge how your investments are performing year to year.

Please note: Past performance is no guarantee of future performance. Also, application of asset allocation and diversification concepts does not assure a profit or protect against loss in a declining market. **It is possible to lose money by investing in securities.**

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**S&P 500** is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. S&P chooses the member companies for the 500 based on market size, liquidity and industry group representation.

**NASDAQ Index** measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures.

**DJIA** is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks.

**Russell 2000 Growth Index** is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratios and higher forecasted growth values. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations.

**Russell 2000 Value Index** is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations.

**Wilshire 5000 Total Market Index** is a capitalization-weighted index that tracks as many stocks being traded in the United States as possible. It tracks all stocks traded on the NYSE, American Stock Exchange, NASDAQ, and any other stock for which data is easily available. Thus, despite its name, it is usually tracking more than 5,000 stocks. It is the broadest index in the United States. The Wilshire 5000 is subdivided into four indices: one for large-cap, one for mid-cap, one for small-cap, and one for micro-cap stocks.

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