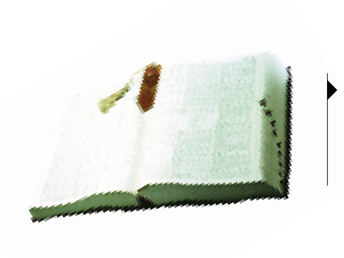

DOW JONES

Glossary of terms

ACTIVE MANAGEMENT
A portfolio technique that takes explicit bets away from the index (therefore adding risk) with the objective of outperforming the index and adding additional investment return known as alpha. (See also: Alpha)

ALPHA
A measure of risk-adjusted performance with regard to a specified market. A positive alpha is the extra return awarded to the investor for taking a risk, instead of accepting the market return. It is the abnormal rate of return in excess of what would be predicted by an equilibrium model. For example, an alpha of 1.0 means the fund outperformed the specified market by 1.0% on a beta-adjusted basis (See also: Beta).

BACKTESTED INDEX DATA
Historical index values for dates prior to the index's introduction. The values are hypothetical and provide an indication of how an index might have performed in the past if it had existed. Also known as Backcasted Data or Synthetic History. (See also: Index History)

BASE DATE
The date at which an index's base value is set.

BASE VALUE
The initial value with which an index is calculated at a particular starting date or base date.

BENCHMARK INDEX
An index used as a basis for comparison when measuring the performance of an investment.

BETA
A measure of volatility in comparison to the market as a whole. It measures risk in relation to the market or to an alternative benchmark. For example, a beta of 1.5 means that returns are expected to move 1.5 times the market's returns. Beta is referred to as an index of the systematic risk due to general market conditions that cannot be diversified away. A beta of 1 indicates that price will move with the market. A beta greater than 1 indicates that price will be more volatile than the market. A beta less than 1 means that it will be less volatile than the market.

CLOSED INDEX FUND
A fund whose investment company issues a fixed number of shares in a portfolio of securities. The shares are traded in the market just like common stock.

CORRELATION
Statistical measure of the degree to which the movements of two variables are related.

DIVISOR
A place-holder that serves as the only link to the original base period value of an index. The divisor keeps the index comparable over time and is the manipulation point for all index adjustments.

EFFICIENT MARKET THEORY
The theory postulating that market prices reflect the knowledge and expectations of (EMT): all investors. It asserts that any new development is instantaneously priced into a security, thus making it impossible to beat the market consistently.

ENHANCED INDEX FUND:
An index fund designed to generally track an index but also to outperform it through the use of futures, trading strategy, capital gains management and other methods.

EXCHANGE-TRADED FUND (ETF)
A security that tracks an index and represents a basket of securities like an index fund. However, it trades like a stock on an exchange, thus experiencing price changes throughout the day as it is bought and sold. ETFs generally have lower expense ratios and experience greater tax efficiency. By owning an ETF, you get the diversification of an index fund as well as the

ability to sell short, buy on margin, and purchase as little as one share. Some common ETFs are the Dow Jones Diamonds (DIA), which tracks the Dow Jones Industrial Average, the Nasdaq-100 Index Tracking Stock (QQQ), which tracks the Nasdaq-100 and the Standard & Poor's Depositary Receipts (SPY), which tracks the S&P 500.

EXPENSE RATIO
The percentage of assets that are used to operate a fund. These include expenses such as management fees, advisory fees and overhead costs. The expense ratio does not include brokerage costs for trading the portfolio.

FLOAT-ADJUSTED SHARES
The number of shares actually available for purchase by the public on open markets. It is calculated by subtracting restricted shares (e.g. those held by company insiders) from outstanding shares.

INDEX
A statistical measure of change in an economy or a securities market. In the case of financial markets, an index essentially measures a particular market or a portion of it.

INDEX COMMITTEE
A group of people responsible for periodically reviewing the components, methodology, goals, etc. of a given index. Not all indexes are governed by a committee; many are instead maintained based on a quantitative set of rules.

INDEX FUND
A portfolio of investments that closely reflects the composition of an index in order to mirror its performance.

INDEX HISTORY
Historical closing values of an index, typically available either daily or monthly. (See also: Backtested Index Data)

INDEX TURNOVER
The percentage of an index's components that change as the result of a periodic composition review. Can be calculated based on component number or market capitalization.

INDEX METHODOLOGY
A body of practices, procedures and rules used to create and maintain an index. Typically, an index's methodology specifies the index universe from which components are selected, the criteria by which an index's components are selected, and practices such as weighting procedures, how the index is calculated, how often is it calculated and how often it is reviewed.

INDEXING
An investment strategy that aims to replicate the performance of a market or market segment using an index as a benchmark.

INDEX UNIVERSE
The pool of securities from which an index draws its components.

INDUSTRY CLASSIFICATION SYSTEM
A system by which securities are identified and grouped by their respective industry sectors. Typically includes several tiers that range from very broad to very specific groupings.

MARKET CAPITALIZATION
A measure of size and value of a corporation, security, fund or index as determined by the market price of its issues and outstanding common stock. It is calculated as the product of market price and shares outstanding = (stock price) x (shares outstanding). Float-adjusted market capitalization is calculated by substituting shares outstanding with float-adjusted shares outstanding.

MARKET COVERAGE
A measure of the degree to which an index includes all of the underlying securities in the market or market segment it represents. Market coverage is generally expressed as a percentage and calculated based on market capitalization.

PASSIVE MANAGEMENT
An investment strategy that mirrors a market index and does not attempt to beat the market. Also known as "passive investing" or a "passive strategy."

PRICE-RETURN INDEX
An index that is calculated with the assumption that cash dividends will not be automatically reinvested into the index. (See also: Total-Return Index)

R-SQUARED
A statistical measure that represents the percentage of a portfolio's movements that is explained by movements in a benchmark index. It can range between 0.00 and 1.00. An R-squared of 1.00 indicates perfect correlation and that all movements of a fund are completely explained by movements in the index, while an R-squared of 0.00 indicates no correlation.

REBALANCING
The process of realigning the weightings of an index or portfolio.

RETURN
The total percentage gain or loss of an index or investment over a specified time period.

RISK
Often defined as the standard deviation of the return on totalinvestment.

SECTOR ALLOCATION
Separating and identifying the distribution of market capitalization an index (or fund) according to the industry sectors in which the component companies operate.

SHARPE RATIO
A measure of return expressed in standard deviation units. Sharpe ratio is calculated by dividing excess return over the risk-free rate by its standard deviation. The higher the Sharpe ratio, the better the risk-adjusted performance.

SIZE INDEX:
General term used to describe indexes defined by capitalization range, generally large-cap, mid-cap, small-cap and micro-cap indexes.

STYLE INDEX
Measure of stocks displaying either growth or value characteristics based on one or more factors. These factors can include, but are not limited to: price-to-book ratio (P/B), price-to-sales ratio (P/S), dividend yield and earnings-per-share. In some indexes, stocks are not exclusively "growth" or "value" stocks and a weighted percentage may be listed in both style indexes. Other indexes, however, require that a company be listed in only one style index.

STYLE PURITY
The degree to which a style index embodies the traits of the style category it represents. The most style-pure growth index will outperform other growth indexes during periods when growth stocks lead the market. Likewise, a style-pure value index will outperform other value indexes during periods when value stocks lead the market.

TOTAL-RETURN INDEX
An index that is calculated with the assumption that dividends will be automatically reinvested into the index. (See also: Price-Return Index)

TRACKING ERROR
The standard deviation of the difference between the performance of a portfolio and the index it replicates. Tracking error captures the volatility of the difference between the return you receive and that of the benchmark you attempt to replicate.

VOLATILITY
A measure of risk based on the standard deviation of return.

WEIGHTING
The relative importance of individual components when combined to form an index, or the percentage of a portfolio or index that a given stock represents. A component with a larger weight will have a greater effect on the movement of the index than would a component with a smaller relative weight. Limits (or caps) may be set to limit how much weight an individual component may have in an index.

Z SCORE
Statistical measure that quantifies the distance (measured in standard deviations) a data point is from the mean of a data set.

SOURCES:
indexfunds.com; investopedia.com; finance.yahoo.com; Barron's Dictionary of Business Terms.

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