

Index constituents - The Top 200 is not!!

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Brainy's Share Market Toolbox

Index constituents

What do you mean:

“The ‘Top 200’ index is not the top 200 stocks?”!

Robert Brain
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Version: 1c

Candlestick Charts
Introduction

About this presentation

This presentation expands on an information graphic I have had for a long time that depicts how the stocks in each market index correspond to the other indexes.

| | All stocks sorted by market cap | Stock Code | Market Cap (\$m) | Market Cap Rank (on ASX) | Stock name |
|-------------------|---------------------------------|------------|------------------|--------------------------|---------------------------------------|
| ASX 100 - XJO* | 1 | BHP | 195,811 | 1 | BHP Billiton Limited |
| | 2 | CBA | 171,464 | 2 | Commonwealth Bank |
| | 3 | CSL | 139,914 | 3 | CSL Limited |
| S&P/ASX 50 - XFL* | 19 | S3Z | 17,834 | 19 | South32 Limited |
| | 20 | NCM | 17,237 | 20 | Newcrest Mining Limited |
| | 21 | GBE | 17,102 | 21 | GBE Insurance Group Ltd |
| ASX 200 - XTO* | 23 | REA | 16,523 | 23 | REA Group |
| | 38 | TPG | 11,784 | 38 | TPG Telecom Limited (not in XFL, XMO) |
| | 47 | REH | 9,536 | 44 | Reece Limited (in XMD not in XFL) |

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Index constituents

Does it surprise you to hear that the 200 stocks in our XJO* “Top 200” index are NOT literally the top 200 stocks in our market by market cap? (they are selected from the top 349)

Stay tuned – We will reveal all...

* XJO index – aka S&P/ASX 200, or “Top 200” index

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Candlestick Charts **Introduction**

Index constituents

Does it surprise you to hear that the 200 stocks in our XJO* "Top 200" index are NOT literally the top 200 stocks **securities** in our market by market cap? (they are selected from the top 349)

Stay tuned – We will reveal all...

* XJO index – aka S&P/ASX 200, or "Top 200" index

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Candlestick Charts **Introduction**

Today's agenda

- What are the top 5 securities on ASX market?
- What is today's *market capitalisation* of these securities?
- Brief look at "*the list of stocks by market cap*"
- In the Top 20 index (XTL) – are these securities literally the top 20 in the market?
- What about the XJO Top 200 index?
- If not, why not??
- Does this matter to you?

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Brainy's Share Market Toolbox

About... Robert Brain

Nimble Short term Investor
consultant, educator and part-time* share trader
web-based sharemarket-support business

- Many years experience as trainer, presenter, conference facilitator (Scouts)
- Share Market – active 15+++ years* (slowly at first)
- Charlist ie. technical analyst (ATAA member and ex-national director)
- Provide support and tuition to traders and investors **Brainy's Share Market Toolbox**
- Member Mensa
- Engineering Degree (structured thinking with an eye for charts and diagrams)
- 30+ years – professional experience (IT and management)
- **No AFS license!** (Can't give advice)
- **BullCharts software** (convener Australian BullCharts User Group and authorised reseller with special pricing)

* - Not yet enough capital to live off the proceeds of trading (after trading as a hobby until a career change in 2008).

Conflict of interest?

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Top stocks and market cap

What are the top 5 securities on our ASX? (by market cap) and what are they actually worth?

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Top stocks and market cap

Our top 5 stocks (by market cap)

| Stock Code | Shares on issue* (millions) | Share Price** (at 31 July) | - |
|------------|-----------------------------|----------------------------|---|
| BHP | 5,062 | \$38.68 | - |
| CBA | 1,702 | \$100.77 | - |
| CSL | 482 | \$289.84 | - |
| NAB | 3,175 | \$30.60 | - |
| WBC | 3,501 | \$21.51 | - |

Notes:

- * - Shares on issue in millions, rounded to the nearest million.
- ** - Share Price and other data here as at 31 July 2022.

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Top stocks and market cap

Our top 5 stocks and market cap

| Stock Code | Shares on issue* (millions) | Share Price** (at 31 July) | Market Cap*** \$ billion |
|------------|-----------------------------|----------------------------|--------------------------|
| BHP | 5,062 | \$38.68 | \$196 |
| CBA | 1,702 | \$100.77 | \$171 |
| CSL | 482 | \$289.84 | \$140 |
| NAB | 3,175 | \$30.60 | \$97 |
| WBC | 3,501 | \$21.51 | \$75 |

Notes:

- * - Shares on issue in millions, rounded to the nearest million.
- ** - Share Price and other data here as at 31 July 2022.
- *** - Market Cap in billions, rounded to the nearest \$ billion, as at 31 July 2022.

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 **Top stocks and market cap**

Market capitalisation can change

Remember that the *market capitalisation* of any listed company can change daily.

Formula:

(number of shares) * (today's share price)

"Mister Market" has control over this!!

"Number of shares":
refers to "common shares", or "outstanding shares".

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 **Top stocks and market cap**

About market cap

Exactly what is "*market cap*"?

1. A measure of what a company is worth on the open market, as if you were to buy the entire company;
2. It reflects the market's perception of its worth today, plus its "future prospects".

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 **Top stocks and market cap**

What about smaller stocks/securities?

| Stock Code | Shares on issue* (millions) | Share Price** | Market Cap*** \$ million |
|------------|-----------------------------|---------------|--------------------------|
| BAS | 240 | 3.7 cents | \$8.903 |
| OEQ | 15 | 23 cents | \$3.599 |
| HXL | 160 | 1.2 cents | \$1.917 |
| IBUY | 0.115 | \$8.54 | \$0.982 |
| UUV | 121 | 0.2 cents | \$0.242 |

Notes:

- * - Shares on issue in millions, rounded to the nearest million.
- ** - Share Price and other data here as at 31 July 2022.
- *** - Market Cap in millions, rounded to the nearest \$ million.

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 **Top stocks and market cap**

Why is it so?

Why are the 200 stocks in the S&P/ASX 200 XJO index not the same 200 stocks as the top 200 in our market by market cap?

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 **About the Indexes**

Index Methodology

- Everything to do with the ASX indexes is governed and controlled by a committee of the Standard & Poor's company and the ASX;
- Refer to the 29 page document: "S&P/ASX Australian Indices Methodology - June 2022"
<https://www.spglobal.com/spji/en/documents/methodologies/methodology-sp-asx-australian-indices.pdf>
- Just Google search for: S&P ASX index methodology



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 **About the Indexes**

The index family - p1

- All Ordinaries (XAO)** - "The index measures the performance of the ... 500 largest **securities**... no liquidity screen or minimum IWF* requirement... not weighted by FAMC*."
- S&P/ASX 20 (XTL)** - "... 20 actively-traded, highly liquid... by FAMC*"
- S&P/ASX 50 (XFL)** - "... 50 of the largest and most liquid index-eligible **stocks**... by FAMC*"
- S&P/ASX 100 (XTO)** - "...the 100 largest **stocks**... by FAMC* ... represents both the LargeCap and MidCap components..."
- S&P/ASX 200 (XJO)** - "... the 200 largest and most liquid **stocks**... by FAMC*"

* FAMC = *Float-adjusted market cap* - Refers to shares that are available for public trading. It excludes: privately held shares, shares that are not available for public trading.

* IWF = *Investable Weight Factor*.

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 **About the Indexes**

The index family – p2

- **S&P/ASX 300 (XKO)** – “... the 300 largest, highly liquid *securities*... by FAMC?... includes LargeCap, MidCap and SmallCap...”
- **S&P/ASX Small Ordinaries (XSO)** – “... companies included in the S&P/ASX 300 but not in the S&P/ASX 100”
- **S&P/ASX Mid-Small (???)** – “... companies included in the S&P/ASX 300, but not in the S&P/ASX 50... A combination of MidCap 50 and Small Ords.”
- **S&P/ASX All Australian 50 (XAF)** – “... 50 of the largest by float-adjusted market cap, highly-liquid... defined as ‘domestic’ or ‘Australian’...”
- **S&P/ASX All Australian 200 (XAT)** – “... 200 of the largest by float-adjusted market cap, highly-liquid... defined as ‘domestic’ or ‘Australian’...”

Source: “S&P/ASX Australian Indices Methodology”, June 2022, pp4-5

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 **About the Indexes**

Index eligibility

“All common and equity preferred stocks (which are not of a fixed income nature) are eligible for inclusion in the indices.”

Not eligible:

- (1) Hybrid stocks such as convertible stock, bonds, warrants, and preferred stock that provide a guaranteed fixed return.
- (2) Listed Investment Companies (LICs) that invest in a portfolio of securities.
- (3) Companies that are currently the target of an acquisition.

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 **About the Indexes**

Market cap eligibility

“The S&P/ASX indices only include securities that are considered to be institutionally investable, and market capitalisation is a key criterion for stock selection, based upon the daily average market capitalisation of a security over the last six months.”

Relevant variables for the calculation include:

- ASX stock price history (last six months, adjusted for price-adjusting corporate actions),
- Latest available shares on issue, and
- The Investable Weight Factor (IWF).

Source: “S&P/ASX Australian Indices Methodology”, June 2022, p8

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 **About the Indexes**

Liquidity eligibility

“Only *securities* that are regularly traded are eligible for inclusion in any S&P/ASX index. A stock’s liquidity is measured relative to its peers (using only ASX value traded data).” (ie. it excludes Cboe/Chi-X data).

*Relative Liquidity** thresholds are as follows, for example:

S&P/ASX 200 – Stocks require a minimum Relative Liquidity of 50% for inclusion in the S&P/ASX 200 and higher hierarchical indices. Any stock’s Relative Liquidity that drops below half of the 50% threshold becomes ineligible and is removed at the next rebalancing.

* – Calculation formula is in the reference document.
Source: “S&P/ASX Australian Indices Methodology”, June 2022, p8.

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 **About the Indexes**

IWF eligibility

Companies in the S&P/ASX indices are assigned an *Investable Weight Factor* (IWF). Except for the All Ordinaries index, a company must have a minimum IWF of 0.3 to be eligible for index inclusion.

More information about IWF is in other S&P Dow Jones Indices documents.

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 **About the Indexes**

Index eligibility – Summary

The index methodology rules mean that some companies do not qualify to be included in a particular index.

So, when we talk about the “top 200” stocks, we are not actually referring to the 200 largest “stocks” in our ASX market.

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 **Is this important?**

Omitted *securities*

The S&P/ASX rules for inclusion:

- Excludes ETFs
- Excludes hybrids
- Excludes listed investment companies.

Remember that the S&P/ASX reference document defines the XJO index as:
“... the 200 largest and most liquid **stocks**...”

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 **Is this important?**

Should this affect your trading?

**For many traders,
is there a reason to
exclude these missing “securities”
(ie. ETFs, etc)
from your Stock Universe??**

If your stock universe is the XJO index,
then you might be missing out on some
fabulous opportunities!

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 **Summary & Wrap up**

Stocks in our indexes

We've looked at:

- Top 5 stocks on the ASX and their market cap;
- List of “stocks by market cap”;
- Top 200 index (XJO) – is not the “top 200”!
- “S&P/ASX Indices Methodology” document so we can understand why it is so.
- Does this matter to you as a trader/investor?

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