

MSCI Index Explainers: What is an Index?

Transcript

What is an index, and why do people say I should know more about it?

You may hear comparisons between investing in the “market” versus investing in individual stocks or other securities.

But what does this actually mean?

Well before we get to that we need to understand what an index is...

An index is a group of stocks, bonds or other types of securities that have been put together with a set of objective rules. Typically, the performance of companies in that group are reflected by the performance of the index.

Typically, the performance of the index reflects the performance of the companies within it.

These rules are usually publicly available and can be based on any objective criteria like sector, industry, company size, geography or even ESG ratings. The MSCI World Index or the MSCI World Information Technology Index are some of those examples.

There are two main ways in which an index is used:

The first is where a fund or investment vehicle may track or replicate an index. These are commonly called passive investment vehicles.

The second is to serve as a benchmark, a measure of performance, to assess how well an active manager may be doing.

It is not possible to invest directly in an index; but they can provide useful information for investment managers to create and manage funds. In both passive and active approaches, an index may inform the composition of the fund, but it will always be up to the investment manager to buy or sell securities, not the index provider.

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