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Indexing Developments

A Doubling of the Dividend Index



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The number of names in the Dow Jones Select Dividend Index will double in December from 50 to 100. Dow Jones said that the index needed to grow to better reflect the expanding universe of high-yielding equities, which has grown in size as companies adjust their policies to take advantage of the 2003 dividend tax cut.

The hugely popular ETF tracking the index, the iShares Dow Jones Select Dividend Index Fund (DVI), will follow suit. Since its launch last year, DVI has garnered \$4.34 billion in assets, making it the fastest growing ETF of 2004.

One fall-out from the change will be a reduction in the average dividend yield of the index. Dow Jones spokesperson Sybille Reitz said that in a mock-up of the expansion conducted in September, the new methodology cut approximately 50 basis points off of the index's current yield of 3.76%.

In addition to increasing the number of names in the index, Dow Jones is also strengthening its liquidity screen. Under the new screen, companies must trade at least 200,000 shares/day to enter the index, and must maintain an average daily volume of 100,000 shares.

Reitz said that the liquidity screen would likely kick some existing names out of the index, although she declined to specify which ones. A quick screen by Jol staffers found Whitney Holding Corp. (Nasdaq: WTNY), a Louisiana bank, as the only company in violation of the liquidity minimum. Many others, however, were close.

All changes will take place on December 20th, the traditional rebalancing date for the index.

A Rising SunGard Sheds More Light On Short Interest

Frustrated by the monthly wait for short interest data? Here's how you spell relief: S ... B ... I, short for SunGard's new Short Borrow Indices.

The indexes, launched in October, will, for the first time, allow investors a timely gauge of short interest on popular indexes. Using data compiled internally at SunGard, the indexes will estimate short interest on a daily basis for the Nasdaq, NYSE, and the S&P 500, 400 and 600 indexes (and related growth and value subcomponents). And according to SunGard, they'll do it accurately, too.

"The correlation [of our data] with the NYSE total short position is .86; the correlation with the Nasdaq total short position is .88," says Jay Indovino, president of SunGard Institutional Brokerage.

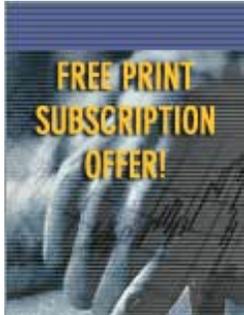
In addition to the daily indexes, SunGard also launched a weekly report using the same methodology to break down short interest on more than 150 individual industries, as well as most ETFs and HOLDRs.

New Dow Jones CBN China 600 Index Launched

In yet another sign of the growing importance of China's economy, Dow Jones has launched a fifth Chinese equity index, in its ongoing attempt to offer investors full coverage of China's equity universe. The new index, the Dow Jones CBN China 600 Index, was created through a partnership between Dow Jones and the powerful Chinese media company China Business Network Ltd. (CBN). It went live in September.

"It is our joint goal, at Dow Jones and at CBN, to build this new index into the world's most widely followed stock market indicator for China," says Karen

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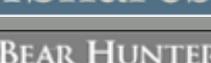














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The new index is based on the stock prices of the 600 largest companies in China, tracking prices on both of Mainland China's two largest stock exchanges, the Shanghai and Shenzhen stock exchanges.

Dow Jones supports four additional China-based indexes: the Dow Jones China 88 Index, the Dow Jones China Total Market Index, the Dow Jones Shanghai Index and the Dow Jones Shenzhen Index.

To make rough comparisons: the Dow Jones China 88 is similar to the Dow Jones Industrials; the China Total Market Index is similar to the Dow Jones Wilshire 5000, and; the new Dow Jones CBN 600 Index is akin to the S&P 500. The Shanghai and Shenzhen indexes track the performance of individual stock exchanges.

The Long and the Short Of Dow Jones' Latest Hedge Fund Index

Dow Jones has expanded its roster of hedge fund indexes to include a new benchmark for funds using long/short trading strategies. The Dow Jones Hedge Fund Strategy Benchmark Equity Long/Short (U.S.) index launched in October, joining five existing benchmarks: Equity Market Neutral, Convertible Arbitrage, Distressed Securities, Merger Arbitrage and Event Driven.

The new benchmark may be the most important in Dow Jones' roster, as long/short equity funds are the hottest sector of the hedge fund market, having led all other strategies in net inflows over each of the past six quarters.

Kiss and Make Up: Barra and FTSE Salvage Agreement

In the end, the customers came first.

After a very public falling out, Barra and FTSE reached a "preliminary agreement" in October that will keep FTSE data flowing to Barra customers without interruption. The agreement marked the beginning of the end of a nasty public spat between the two sides over FTSE's plans to raise its data licensing fees, which saw both sides warning customers that a split was imminent. The rapprochement came just days before the old agreement was due to expire.

"We're very happy to have reached this agreement with Barra," said Jerry Moskowitz, who heads up FTSE's efforts in the United States. "I can only speak for FTSE, but clearly, we got a lot of feedback from our clients on this issue, and what they were telling us is that they wanted us to settle. I think both organizations took the comments from clients very seriously."

The two sides have a mid-December deadline for reaching a final agreement. FTSE did not expect end-user licensees to notice any "substantial change" in what they pay for the data.

Amex Launches Clean Energy Index, And Looks To ETF

In mid-August, the American Stock Exchange (AMEX) began publishing its WilderHill Clean Energy Index (ECO), a modified equal-weighted index comprised of companies whose businesses stand to benefit substantially from society's transition to cleaner energy and conservation.

PowerShares Capital Management has filed a registration statement to launch an ETF based on the index. The registration statement covered 25 other new exchange-traded funds as well.

Smart energy alternatives, such as wind, solar and hydrogen fuel cells, have become billion-dollar markets, said Robert Wilder, managing director of WilderShares LLC, who added that costs are dropping as technology improves.