



Disciplined Trading Strategies

What is “the Market”?

The Spoos, the futures, the Dow, the e-minis, the Holdrs, the cash market. If you are new to trading, hearing all these terms thrown about may be enough to make your head spin. All you wanted to know was how the ‘Market’ was doing. What do all these terms mean?

Well, let’s start from the top. The ‘market’ generally means the whole stock market. But there are over 14,000 stocks (no one seems to know exactly) and many don’t trade, many are worth a penny. So we usually look at the market through the eyes of an ‘index’.

An ‘index’ is a list of the larger, key stocks that are thought to be representative of the market itself. Some indices you might have heard of are the S&P 500, the NASDAQ 100, and the Dow Industrials (Dow).

The S&P 500 is widely regarded as the best single gauge of the U.S. equities market. It is a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, it is also an ideal proxy for the total market. To view the actual price and chart of the S&P 500, you put in the symbol for the ‘cash’ index. For example, on some platforms that symbol is \$INX.X.

The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade



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and biotechnology. To view the actual price and chart of the NASDAQ 100, you put in the symbol for the 'cash' index. For example, on some platforms that symbol is \$NDX.X.

The Dow is an index of only 30 stocks that is thought to be a cross section of our entire market. It is often used as the representative of the U.S. Market globally. It is maintained and reviewed by Dow Jones and Co. For the sake of continuity, composition changes are rare, and generally occur only after corporate acquisitions or other dramatic shifts in a component's core business. To view the actual price and chart of the Dow, you put in the symbol for the 'cash' index. For example, on some platforms that symbol is \$DJI.

Note that there can be overlap. Intel Corp. (INTC) for example, is in the NASDAQ 100, S&P 500, and the Dow.

There are also HOLDRS and ETFs, which are often confused. HOLDRS (spelled correctly even though it is pronounced as 'holders') is an acronym for HOLDing Company Depository Receipts and are service marks of Merrill Lynch & Co., Inc. They are securities that represent an investor's ownership in the common stock or American Depository Receipts of specified companies in a particular industry, sector, or group. In other words, they are traded like a single stock but represent ownership in several stocks in a sector in most cases. Common HOLDRS traders use are BBH for the Biotech sector and HHH for the Internet sector.

ETF is an acronym for Exchange Traded Fund. Each ETF is a basket of securities that is designed to generally track an index (stock or bond, stock industry sector, or international stock), yet trades like a single stock. There are more than 120 ETFs, and the most common ones traders use are the QQQ, SPY, and DIA. These are the EFTs for the NASDAQ 100, S&P 500, and Dow Industrials.

In addition to the above, there are also futures. A futures contract is an obligation to receive or deliver a commodity or financial instrument sometime in the future, but at a price that's agreed upon today. People commonly think of futures in corn



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and pork bellies. But futures have also been developed for financial markets. As you might guess, there are futures for the NASDAQ 100, S&P 500, and the Dow. To view these must be permissioned to receive futures quotes (talk to your broker). Symbols examples are /NDH17, /SPH17, and /ZDH17, respectively (by the way, the S&P Futures is the one that carries the nick-name 'spoons'). Note, the last the characters ('H17') represent the month and year of the future and change every quarter.

The most popular financial futures contracts were set up as new trading instruments by reducing their size. This set up a series of products known as the E-minis. They are available for the NASDAQ 100, S&P 500, and the Dow. Their symbols are /NQH6, /ESH6, and /YMH6 respectively. They are popular due to the reduced size and requirements.

So, how many ways could you view the S&P 500? Well, there is the cash index (\$INX.X), the Electronically Traded Fund (SPY), the future (/SPH6), the E-mini future (/ESH6). Is there any difference in the chart patterns? Well, they are all tied to the same underlying instrument, the price action of the S&P 500, so at the end of the day the chart patterns will all be similar. However, depending on what is happening in the market, the intra-day price action may vary slightly as one of these may begin to move ahead of the others.

So when you hear someone just say 'the market', they are likely referring to whatever they last discussed, or they may be just using the term in a generic way to describe the action of 'all stocks'. There will often be very different patterns when you compare the NASDAQ to the S&P 500, or any other individual sector. Sometimes they will look similar. However, whatever instrument you use to view the 'S&P 500, be it the cash index, the ETF, the futures ('spoons') or the E-minis, they will look similar at the end of the day. That is because they are all viewing the same instrument, that same basket of 500 stocks.



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While this may not help your trading much, I receive numerous questions on this topic. I hope this helps clear up some of the terms, and gives you a better idea of what you want to be looking at.