Index Trackers and Simple Equity Investing

I love Index Tracker funds and believe they are the quickest, easiest and most cost effective vehicle for most people to start building up assets.

An index tracker is a cheap, simple investment fund that mimics the performance of the stock market.

An index is a method of tracking how well a stock market, or a particular sector of it, is performing. It enables investors to assess how well they are doing, by comparing their own performance against it. They can see if they are outperforming (doing better than the index) or underperforming (doing worse).

Each index is made up of many different companies. When you hear on the news that the "JSE All Shares is down 100 points" or the "Footsie has risen 50 points today", the news reader is referring to the stock market indices of the Johannesburg Stock Exchange and the London Stock Exchange respectively.

There are literally hundreds of different indices across the world. As well as tracking the markets of whole countries you can also get indices that track individual industries or large geographical regions like Europe, Africa or the Far East. In South Africa the main index is the JSA All Share index, in the UK its the FTSE 100 which tracks the performance of the largest 100 companies listed on the London Stock Exchange. The main indices in the US include the Dow Jones Industrial Average (the Dow), the S&P 500 and the Nasdaq (where most technology shares are listed), and in Australia the main index is the ASX - Australian Stock eXchange. Others indices you may come across include the Nikkei (Japan), Hang Seng (Hong Kong), Dax (Germany) and CAC 40 (France).

An index tracker is a fund that holds shares in the same proportion as an index. So a FTSE 100 tracker attempts to mimic the performance of the FTSE 100, the Satrix 40 attempts to mimic the performance of the JSE top 40 and so on. When the make up of an index changes, the index tracker will adjust its holdings accordingly. So an index tracker differs from most other funds, collectively referred to as managed funds, where it's the fund manager who decides when and which companies are bought and sold. If you own an Index Tracker, you own a bit of each company in that index.

Index Trackers have a number of advantages over actively managed funds. The main advantages being they have lower costs, tend to outperform over 80% of managed funds and are much much simpler to operate. Essentially, you just pick your tracker and leave it to do its job for twenty years or longer. All things considered, I believe that an index tracker is the most suitable initial investment vehicle for the Wealth Chef.

There are a number of useful resources you can investigate to begin investing in Index Trackers. I love the information and values of the Motley Fool team and irrespective where you live you can get some great advise from their sites.

United Kingdom

www.fool.co.uk/

www.ishares.com

https://global.vanguard.com/portal/site/home

Australia

www.fool.com.au/

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United States

www.fool.com

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South Africa

www.etfsa.co.za