

An Index Map of Market Cap

Most investors associate NASDAQ with large outperforming companies but they should not overlook the potential of other market cap tiers on the exchange. The FTSE NASDAQ Index Series uses FTSE's global indexing expertise to break the Nasdaq marketplace into Large-, Mid- and Small- cap market segments. FTSE Americas President Jerry Moskowitz explains how this structured breakdown offers a whole spectrum of exposure and diversification in the NASDAQ marketplace.

Q: What is the FTSE NASDAQ Index Series?

A: The FTSE NASDAQ index series was launched in July 2005 and includes the FTSE NASDAQ 500, the FTSE NASDAQ Large Cap, the FTSE NASDAQ Mid Cap and the FTSE NASDAQ Small Cap indexes. The series was created to track various sized market cap segments of the Nasdaq.

The wide popularity of the PowerShares QQQ ETF, which tracks the performance of the Nasdaq 100 index, indicated strong investor interest in the Nasdaq marketplace and a demand for choice between large, mid and small market cap segments.

Q: How do you come up with the classification in terms of market cap?

A: The FTSE NASDAQ Large Cap index consists of the largest 70% of Nasdaq listed companies, the FTSE NASDAQ Mid Cap index represents the next 20%, and FTSE NASDAQ Small Cap Index is the smallest 10%.

The FTSE NASDAQ Small Cap index is made up of 1,159 companies, and has a market capitalization of approximately \$300USDBillion. It's much smaller than almost every other small cap index out there and shares many similarities with micro-cap indexes.

Q: Why are investors interested in the FTSE NASDAQ Small Cap, even though there are the Russell 2000 and so many other indexes out there?

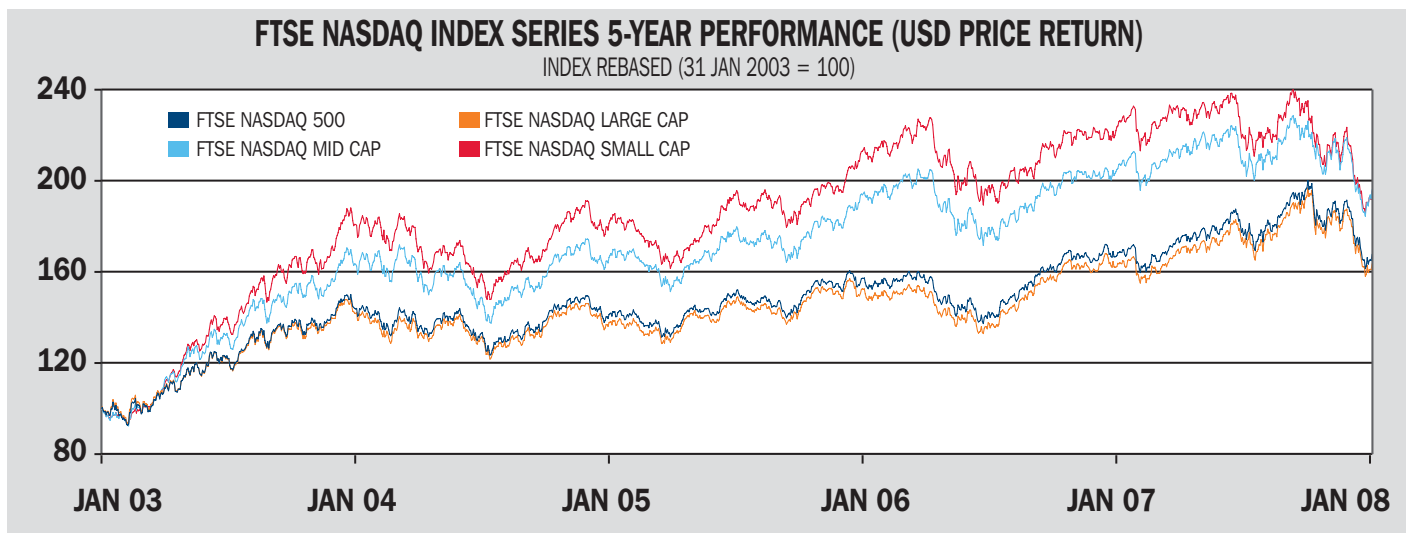
A: The FTSE NASDAQ Index Series was created to diversify the NASDAQ by capitalization structure. Investors are interested in the Nasdaq exchange because it gives them exposure in technology and biotechnology. The creation of the FTSE NASDAQ series allowed them to keep this exposure while diversifying away from only the largest companies. Because the FTSE NASDAQ Small Cap really bridges between Small Cap and micro-cap, it also offers investors further diversification in the Small Cap world.



JERRY MOSKOWITZ serves as President, FTSE Americas, where he is currently leading FTSE's continued expansion into the US marketplace. Moskowitz is responsible for formulating and planning the FTSE Americas domestic sales and business development strategies, and also works closely with the firm's US-based strategic partners. He is also charged with managing FTSE's global data distribution function to vendors worldwide.

Moskowitz has spent over 30 years working within the financial sector, building extensive experience in financial sales and marketing. He began his career as a portfolio manager at Chase Manhattan Bank and then, moved into the financial services industry holding sales and marketing positions at Standard & Poor's, Moody's and ADP.

Prior to joining FTSE Group in October 2003, Moskowitz was Senior Vice President at Thomson Financial where he was responsible for third party distribution and data acquisition. He earned his MBA with honors in finance from Baruch College.



Source: FTSE Group, data as of 31 Jan 2008

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Q: How many companies actually trade everyday on Nasdaq?

A: Roughly three thousand companies trade everyday on the Nasdaq. Not all are included in the FTSE NASDAQ Index Series. Companies must meet FTSE’s free-float and liquidity standards in order to be part of the indexes. FTSE also eliminates any dually listed companies from the indexes, meaning companies must trade on the Nasdaq only, rather than trading on both the Nasdaq and another exchange.

Q: How many companies actually pass through your free-float liquidity tests?

A: About 3,100 companies out of 3,800 companies listed on the Nasdaq passed. This is because the Nasdaq has its own free float and liquidity rules, so the companies are pre-screened. Although FTSE’s rules are a bit tighter, most of the companies that list on the exchange -- about 81.5% -- passed.

Q: Generally what kind of industry breakdown do you see? Are there any dominant industries?

A: In the FTSE NASDAQ Large Cap and FTSE NASDAQ 500 indexes, the

dominant industries are what Nasdaq is best known for - technology. Microsoft, Cisco, Google are all in the top ten names. The FTSE NASDAQ Mid Cap index is a blend of technology and biotechnology companies. This blend changes further with the FTSE NASDAQ Small Cap index, which is heavy in biotechnology and pharmaceuticals, but includes some other industries. The Small Cap index is the most diversified by industry.

Q: It looks like the large cap index has almost all the companies that generate at least some consistency in profit and the small cap index has all the companies with uneven profit track record.

A: It is true that FTSE NASDAQ Large Cap index includes more profitable and stable companies such as Microsoft and Oracle. The FTSE NASDAQ Small Cap includes companies like Insight, Royal Gold and ManTech International which are not as well known and have less predictable earnings.

Investing in Small Cap companies is no doubt riskier, but within an index, risk is diversified amongst all of the constituents. While some may under-

perform, others may be the mid and large cap companies of tomorrow. An index is able to capture some of the extraordinary returns, and do it in a way that investors can diversify without necessarily having to do research on individual companies. Actually, the Small Cap index has consistently outperformed the mid and the Large Cap over the past five years.

Q: What is the thinking behind the FTSE NASDAQ 500 index?

A: The FTSE NASDAQ 500 was created due to demand from investors interested in diversifying their Nasdaq holdings in a way similar to the S&P 500 index. The index represents the Nasdaq's tilt toward technology. It is also unique because unlike the S&P 500, which selects 500 companies by the committee, the FTSE NASDAQ 500 uses a rules-based, transparent approach to selecting the 500 five hundred largest companies by market capitalization.


Q: How often stocks in the index are reviewed? Is it quarterly or annual?

A: The index is reviewed annually in the first week of December. This annual review is done before the year-end in order to provide sufficient time for fund managers to adjust their portfolios to reflect index changes. They have the whole month of December, when markets generally have ample liquidity, to adjust.

Q: Are these indexes available for shorting as well?

A: Exchange traded funds such as the new PowerShares ETF tracking the FTSE NASDAQ Small Cap index trade like a stock and can certainly be shorted. As for the indexes themselves, shorting becomes complicated when there are five hundred stocks in an index. Even

FTSE NASDAQ INDEX SERIES	
Index Universe	NASDAQ Composite Index
Index Launch	July 2005
Base Date	April 2005
Index Launch	July 2005
INDICES & SYMBOLS	
FTSE NASDAQ 500	Q500
FTSE NASDAQ Large Cap	QLGC
FTSE NASDAQ Mid Cap	QMID
FTSE NASDAQ Small Cap	QSMC
PRICE INDEX PERFORMANCE - 5 YEARS	
FTSE NASDAQ 500	84.79%
FTSE NASDAQ Large Cap	81.34%
FTSE NASDAQ Mid Cap	108.55%
FTSE NASDAQ Small Cap	111.14%
NASDAQ UNIVERSE BREAKDOWN - NO. OF COMPANIES	
FTSE NASDAQ Large Cap	146
FTSE NASDAQ Mid Cap	500
FTSE NASDAQ Small Cap	1,159
FTSE NASDAQ 500	503
FTSE NASDAQ Universe	1,805
NASDAQ UNIVERSE BREAKDOWN - FULL MARKET CAP	
FTSE NASDAQ Large Cap	\$2,434B
FTSE NASDAQ Mid Cap	\$674B
FTSE NASDAQ Small Cap	\$356B
FTSE NASDAQ 500	\$3,010B
FTSE NASDAQ Universe	\$3,464B
NASDAQ UNIVERSE BREAKDOWN - NET MARKET CAP	
FTSE NASDAQ Large Cap	\$2,315B
FTSE NASDAQ Mid Cap	\$587B
FTSE NASDAQ Small Cap	\$301B
FTSE NASDAQ 500	\$2,819B
FTSE NASDAQ Universe	\$3,203B
NASDAQ UNIVERSE BREAKDOWN - WEIGHT WITHIN UNV.	
FTSE NASDAQ Large Cap	72.78%
FTSE NASDAQ Mid Cap	18.32%
FTSE NASDAQ Small Cap	9.40%
FTSE NASDAQ 500	88.00%
FTSE NASDAQ Universe	100.00%
<i>Data through: 01/31/2008</i>	
<i>Source: FTSE Group</i>	

with one hundred stocks, it's complicated to find who is really holding on to the stocks' certificates in order to borrow them to sell them in the market on a short position. One would really have to "hunt and peck" because very often they're sitting in custodial accounts at some of the large banks. The ease in shorting a fund that trades like a stock but represents the performance of an entire index is part of the reason that ETFs are such popular investment vehicles. 

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