An index is a calculation, not a company

> **STOCK INDEX**
>
> A number produced by applying a published rule to the prices of a defined list of shares. It is a measurement, not a security: nobody issues it, nobody holds it, and there is no counterparty who owes you an index. Everything tradeable that carries an index's name is a separate contract that references the number.

Start with the thing most people get wrong on day one, because everything else in this module depends on getting it right.

You cannot buy the FTSE 100

The FTSE 100 is not a company, a fund or an asset. It is the output of a formula: take 100 defined companies, weight them by a stated rule, divide by a number chosen to keep the series continuous, and publish the result every few seconds.

Nobody owns it. There is no share certificate, no dividend, no register. When somebody says they bought the FTSE, they bought a contract - a future, a fund, a spread bet, a CFD - whose value is defined by reference to that number. Which contract, and what it costs, is module 3.

The divisor is the part nobody mentions

An index has to survive its own constituents changing. Companies merge, split, get replaced, issue shares. Each of those would jolt the number for a reason that has nothing to do with the market moving.

So the calculation carries a divisor that gets adjusted whenever the list changes, chosen precisely so the index does not jump at the moment of the change. It is the mechanism that makes a continuous series out of a discontinuous list, and it is the reason an index level has no natural units. The number 8,200 is not eight thousand of anything.

What it is for

A summary: one number standing for a market's direction that day.A benchmark: something a fund can be measured against.A reference: the thing derivatives and trackers are defined against.

The third is why it matters here. An enormous amount of money is contractually obliged to follow that number, and that obligation shapes how the market behaves - which is lesson 3.

Why this framing keeps paying off

Hold on to it and several confusions dissolve at once. Why your platform's chart does not match the number on the news. Why the index gaps at the open when the future traded all night. Why two indices covering the same market disagree about whether it went up.

Each of those is a question about the calculation or about the contract referencing it, and neither makes sense if you think you are holding a thing.

Check your understanding

1. What is a stock index?

a. A fund holding shares in every constituent
b. The output of a published rule applied to a defined list of share prices
c. A company that tracks a market

Answer: b. It is a measurement, not a security. Nobody issues it and nobody holds it - everything tradeable carrying its name is a separate contract referencing the number.

2. What is the divisor for?

a. Converting the index into the local currency
b. Keeping the series continuous when the constituent list changes
c. Reducing the index to a round number

Answer: b. Mergers, replacements and share issues would each jolt the number for reasons unrelated to the market. The divisor is adjusted so the index does not jump at the moment of the change.