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Answer Key

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■ 10 Terms & Definitions

<p>PASSIVE</p> <p>Passive investing is a strategy that seeks to replicate the performance of a market index rather than outperform it through active stock selection. Passive investors believe that most active fund managers fail to consistently beat the market after fees, and that simply owning the</p>	<p>EXPENSE</p> <p>The expense ratio is the annual fee charged by a fund to cover operating costs, expressed as a percentage of assets. It is automatically deducted from the fund's returns — you never write a check, but it compounds significantly over time. A 1% expense ratio on a \$100,000 investme</p>
<p>BENCHMARK</p> <p>A benchmark is a standard index used to measure and compare the performance of a fund or portfolio. The S&P; 500 is the most common benchmark for US large-cap equity funds. Fund managers are judged by whether they beat (outperform) or trail (underperform) their benchmark after fee</p>	<p>VANGUARD</p> <p>Vanguard is the investment management company that pioneered the modern index fund. Founded by John Bogle in 1975, Vanguard launched the first index mutual fund available to retail investors — the Vanguard 500 Index Fund. Vanguard is uniquely structured as a client-owned company,</p>
<p>TRACKING</p> <p>Tracking error measures how closely an index fund's returns match its benchmark index. A fund with zero tracking error perfectly replicates the index. Small deviations arise from fund expenses, cash drag (holding cash for redemptions), and the timing of rebalancing. Lower trackin</p>	<p>REBALANCE</p> <p>Rebalancing is the process of realigning a portfolio's asset allocation back to its target percentages by buying or selling assets. As markets move, some holdings grow larger and others shrink, drifting from the original plan. Most index fund investors rebalance annually or when</p>
<p>DIVERSIFY</p> <p>Diversification is the practice of spreading investments across many different assets, sectors, and geographies to reduce risk. A single index fund can provide instant diversification — the S&P; 500 holds 500 companies across 11 sectors. International index funds add exposure to t</p>	<p>BOGLE</p> <p>John C. Bogle (1929–2019) was the founder of Vanguard and the creator of the first index mutual fund available to retail investors. He championed the philosophy that most investors would be better served by owning the entire market at minimal cost rather than paying high fees to</p>
<p>WEIGHT</p> <p>In a market-capitalization weighted index like the S&P; 500, each company's weight is proportional to its total market value (shares × price). Larger companies have more influence on the index's performance. Apple, Microsoft, Nvidia, and Amazon collectively represent around 25–30%</p>	<p>COMPOUND</p> <p>Compound growth is the process by which investment returns generate their own returns over time — earning interest on interest. It is the foundational principle behind long-term wealth creation through index fund investing. A single \$10,000 investment in an S&P; 500 index fund ear</p>