BLACKSTAR

FTSE at 20,000

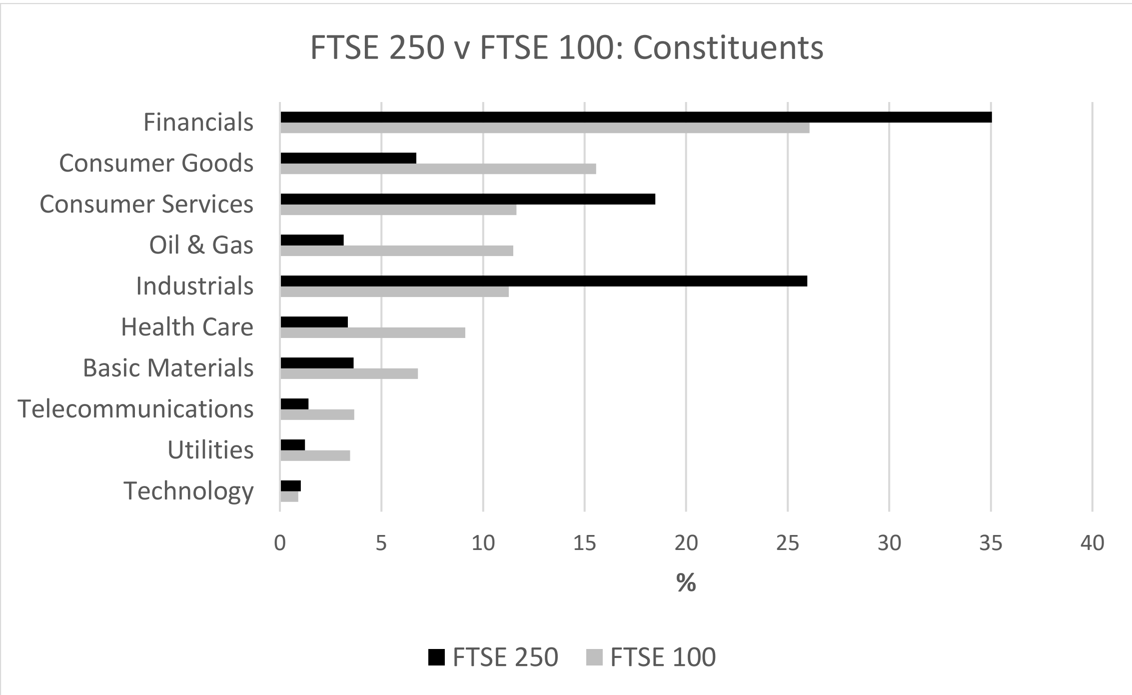
No, it's not a mistake, but it is not the FTSE 100, either.

The most frequently quoted index of UK share prices is the FTSE 100 index, or the "Footsie" as it is frequently described. The FTSE 100 index was launched at the end of 1983, with the aim of giving a yardstick to the value of the largest 100 companies listed on the London Stock Exchange. It started life with an initial value of 1,000 and is now about 7,500, equivalent to an average annual return of about 6.2% *excluding* dividends.

Two years after the FTSE 100 came into being, the FTSE 250 appeared. This captured the performance of the 250 UK listed companied that ranked below the Footsie's larger constituents. The FTSE 250 was launched with an initial value of 1,412.6, an odd-looking number which becomes more understandable when you know that was the reading on the FTSE at the FTSE 250's birth.

In May, the FTSE 250 hit one of those round numbers which cause a brief flurry of comment: 20,000. That is equivalent to an average annual return of 8.8%, again *excluding* dividends.

The difference in performance between the two can largely be explained by the difference in the industry concentrations in the two indices, as illustrated in the chart below.



Source: FTSE Russell 28/4/2017

BlackStar Wealth Management
17 Wrens Court, Lower Queen Street, Sutton Coldfield, West Midlands, B72 1RT

The industry concentration is partly driven by the nature of the companies. The FTSE 100 contains many large multinational companies, including mining groups (e.g. Rio Tinto), with little more than a share listing in the UK. On the other hand, the FTSE 250 is more domestically oriented.

The gap between the two indices' performance is a reminder that the numbers that make the press headlines do not always tell the full story and that relying on a fund tracking the Footsie may mean missing out on some of the better performing UK companies. A review of your portfolio can be a useful exercise.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

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