WHAT AN INDEX IS - AND ISN’T

Vajgrt Labs - Education - Lesson 11 of 72 - 4 min read - Updated Oct 21, 2026

TL;DR

- An index is a calculated number that tracks a basket of stocks - the S&P 500 tracks 500 large US companies. It is a measurement, not a product.

- You cannot buy the index itself. You buy a fund that holds the basket and follows the number - SPY is the oldest of those funds.

- SPY’s price is roughly one-tenth of the index level: index ~ 7,700 pairs with SPY ~ $770. Same weather, two thermometers.

THE TAKEAWAYS

- The S&P 500 index holds 500 large US companies - as 503 listed shares, because a few companies have two share classes trading (State Street index data, Oct 2026). It is weighted by company size: the biggest members move the number most.

- The index level (often quoted as SPX) is computed from those companies’ prices all day. It is not traded, and nothing in a normal brokerage account settles at ’the index price’.

- An index fund does the owning for you: SPY holds the basket, so one purchase tracks the whole scoreboard. That’s the ’product’ half of the pair.

- The ~1/10 rule: SPY was built to trade at about a tenth of the index level, so a ’SPY up $2’ day is roughly an ’index up 20 points’ day. Check the ratio, not your memory of it.

RULE: Index = the number. Fund = the thing you buy. When someone quotes you a level, ask which of the two they mean before you do any maths.

COMMON MISTAKES

- Saying ’I bought the S&P 500.’ You bought a fund that tracks it - the distinction decides what your price means.

- Mixing index levels and SPY prices in the same plan (the 10x misread).

- Assuming 500 companies means equal weight. It’s size-weighted; the giants steer.

- Thinking the index is a company with a manager picking stocks. It’s a rules-based list, reviewed on a schedule.

DO IT - TWO THERMOMETERS

Find today’s S&P 500 index level (any quote app shows it as SPX or ^GSPC) and today’s SPY price. Divide the index by SPY - you should land near 10. Write both numbers and the ratio in your journal. From here on, every level you meet gets labelled ’index’ or ’SPY’ before it’s used.

Education only - not financial advice. SPY fund facts: State Street SPDR S&P 500 ETF Trust page, checked Oct 15, 2026. SPY Sheet figures: vajgrtlabs.com/spy, Oct 15, 2026. Vajgrt Labs - Education.