



New Innovations in Equity Indices

Kuwait, 11th September 2007



الأمان للاستثمار
Al Aman Investment

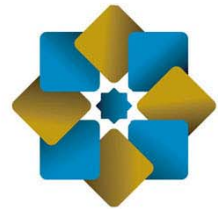
82 aman
2626
alaman.com.kw

إدارة الأصول - خدمات استثمارية إسلامية



AlAman Indices

General index – Islamic index



الأمان للاستثمار
Al Aman Investment

82 aman
2626
alaman.com.kw

إدارة الأصول - خدمات استثمارية إسلامية

Overview



- Brief overview of index weighting methodologies
- Why the move away from Free Float Adjustment?
- Index Concept
- Index Advantages
- Indices Comparison

Index Weighting Methodologies



- **Price Weighted Indices**

The pros

- First indices to be calculated
- Continued usage (DJIA, Nikkei 225)

The cons

- Biased to stocks with the largest prices
- Not representative of the aggregate market

Index Weighting Methodologies



- **Equally Weighted Indices**

The pros

- Easy to construct
- More diversified

The cons

- Can lack liquidity and capacity
- Not representative of the aggregate market
- Rebalancing frequency tradeoffs (realignment of weightings = higher turnover = higher costs)

Index Weighting Methodologies



• Market Capitalisation Weighted Indices

The pros

- Universal usage (the principal performance benchmark)
- Highly correlated with trading liquidity = increased capacity
- Automatically rebalances with the change in pricing = implied lower costs

The cons

- Embedded overweighting of over valued stocks and underweighting of under valued stocks
- Degree of efficiency in determining the intrinsic value of a company
- can't be used in asset allocation for the cal

Index Weighting Methodologies

Global Trend



Index	Country	Weighting	Description
MSCI Index Family	World Wide	Float Weighted	Separate series for individual developed and emerging markets
Value Line (Arithmetic (Composite Index	.U.S.A	Equal weighted	Equities traded
Dow Jones (Industrial (Average	.U.S.A	Price weighted	Bluechip companies
Russell 3000	U.S.A	Float Weighted	The 3000 largest stocks in USA by market cap
Russell 1000	U.S.A	Float Weighted	The 1000 largest stocks in Russell 3000
Russell 2000	U.S.A	Float Weighted	The 2000 largest stocks in Russell 3000
S&P 500	U.S.A	Float Weighted	predominantly large -cap companies representative of U.S stock market
(S&P TSX (Composite	Toronto - Canada	Float Weighted	Equities traded
FTSE 100	London	Float Weighted	The 100 largest publicly traded stocks
DAX 30	Germany	Float Weighted	Bluechip companies
TOPIX	Japan -Tokyo	Value Weighted	All listed companies on stock exchange - first section
(Nikkei (Stock Average	Japan	price weighted	(Blue ship companies (Created by Dow Jones Company
CAC 40	France	Float Weighted	Blue ship companies

Index Weighting Methodologies



- **Free Float Weighted Indices**

The pros

- Globally, the free-float methodology of index construction is considered to be the industry best practice and all major index providers like MSCI, FTSE, S & P and STOXX have adopted the same.

The cons

- In Emerging markets is impossible to calculate free float factors, as the lack of transparency is one of the major characteristics of the emerging markets. It will be impossible to know the real amount of the controlled shares

Index Concept

“VOLUME”



- However, the concept of our adjustment factor is being used since long time in the investment world, it is the first time to use this concept in calculating equity index.
- “VOLUME”. The traded volume used in many cases to adjust the stock market reading (ex., instead of using the last transaction as a closing price, some exchanges use Volume weighted price as a closing price “VWP”).
- Volume provides clues as to the intensity of a given price.
- Volume can help determine the health of an existing price movement.
- Also volume is used to adjust the moving average values (VMA) instead of using simple moving average to reflect the real movement
- The traded volume is the only measure to judge the stock liquidity

AL Aman Methodology



- we used the Traded Volume to adjust the company's capitalization, which reflects the real status of the company's liquidity

$$AMC = \text{Market Cap} * F$$

- AMC = Adjusted Market Cap
- F= Inclusion Factor

In calculating the inclusion factor we use the following readings

- N= Number of Days
- V= Traded volume at the day
- S= Outstanding Shares

AL Aman Indices Advantages



Asset Allocation : Al Aman Indices have a great advantages over the other indices, as it have one of the important characteristics of the good index “ inevitability”, as the weights of the companies in the index are not biased either to cap or to price and the allocation of each company is applicable. Alaman indices can be easily used as “ETF”

“in emerging markets There are big cap illiquid companies and there is no enough disclosure information to determine the free float factor for these companies”

Investment Universe : due to the Innovative calculation methodology of al aman indices, Al Aman General Index covers all the companies in the Kuwait stock market and Al Aman Islamic Index Cover All The Islamic Companies, Either Sharia board or Sharia Complied. So there is no dilemma for selecting companies to include in the index as the criteria is clear and investable

Performance Measurement : Al Aman Indices represent an accurate measurement for the market movement is it compared to other indices either price weighted or cap weighted or even free float adjustment in emerging market where there is a lack of transparency, which make them a good tool in evaluating the performance of managers

AL Aman Indices Advantages

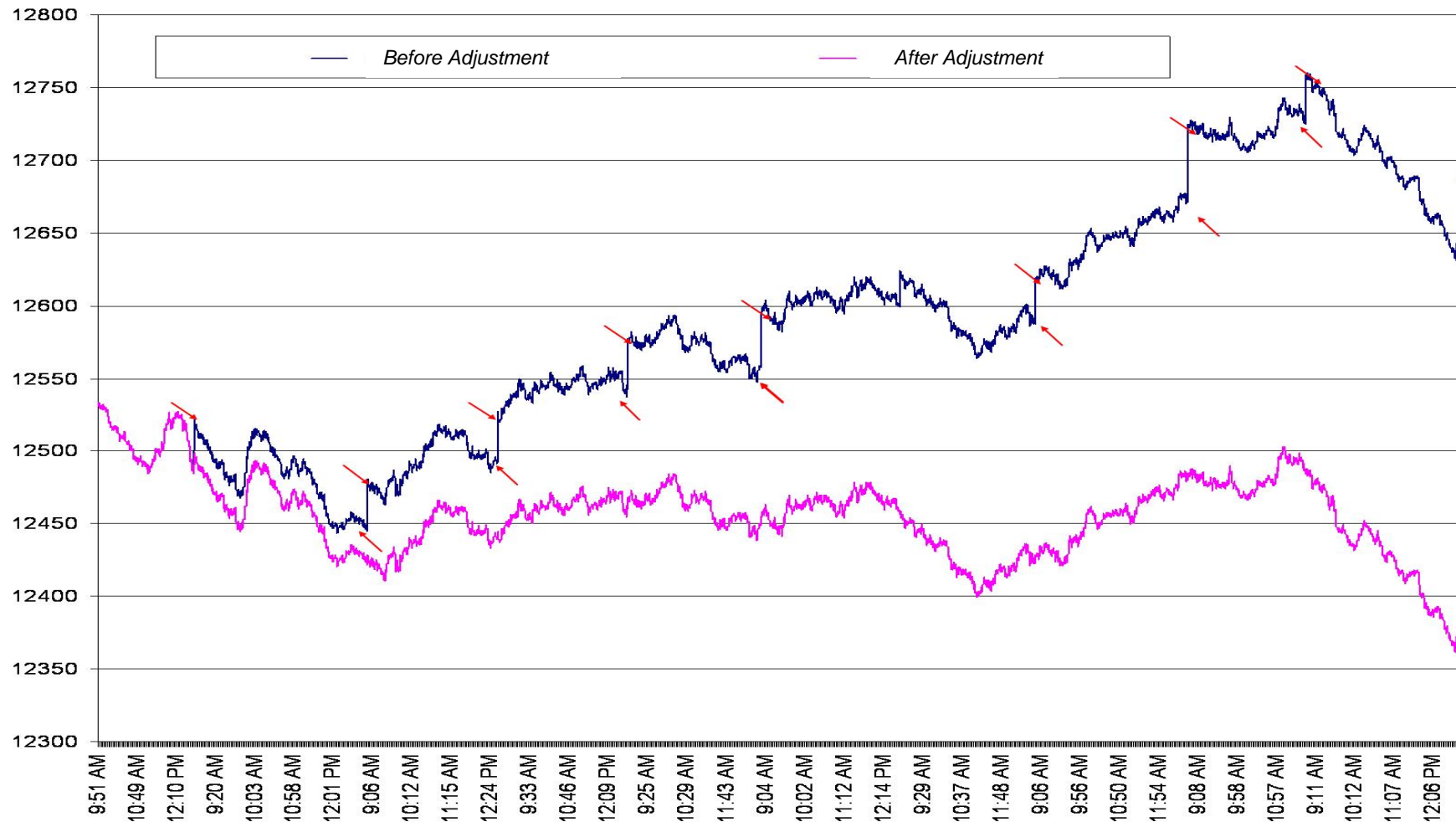


Intraday: The sharp movement that occur at the end of each trading day “ In the last 30 Second”, doesn’t appear at Al Aman indices because this movement mainly generated by affecting the price of the Non traded companies, these companies don’t have an effective weight in our indices.

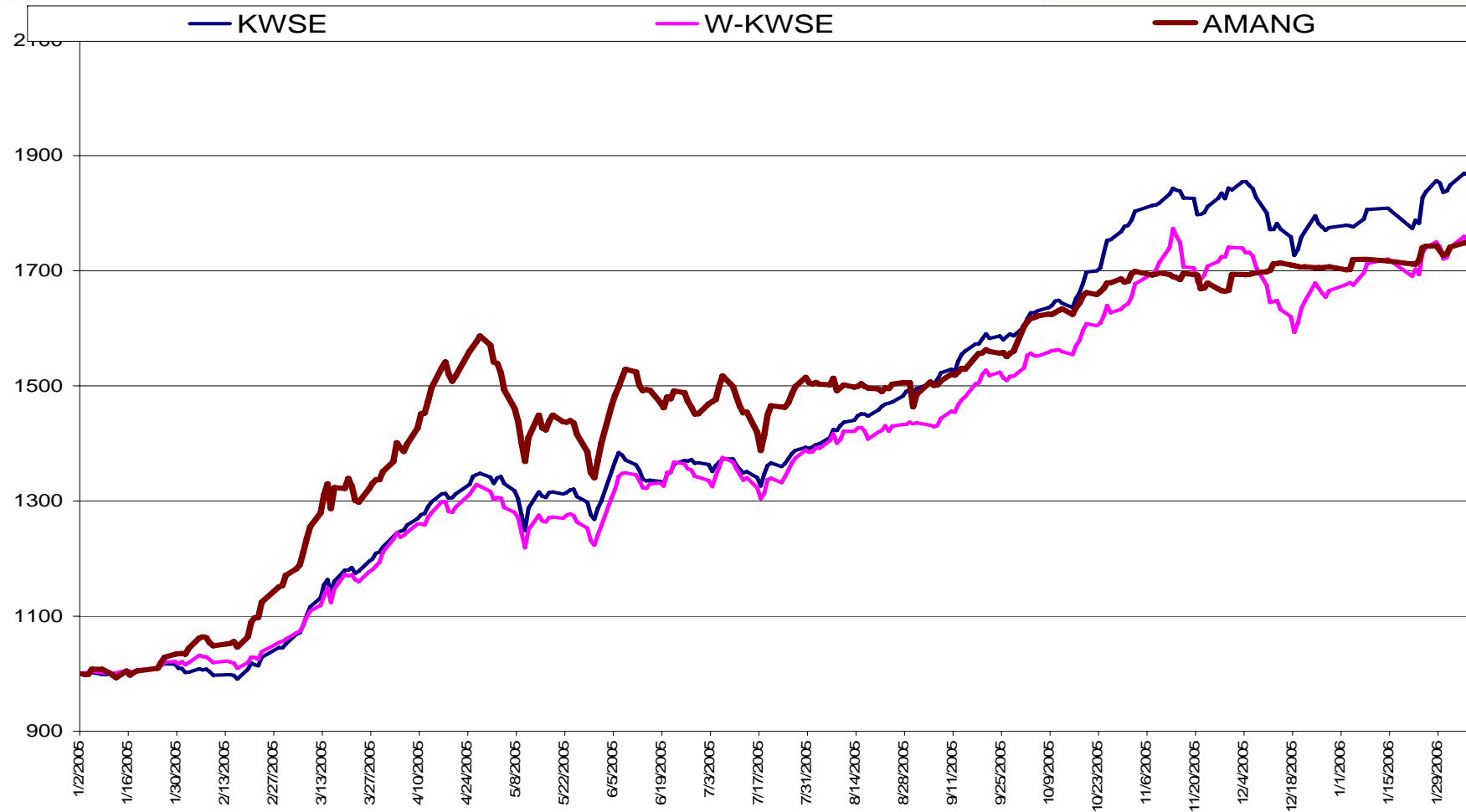
Short Term : In the Short term Al Aman Indices reflect the real market trend, as some times a sharp price increase in the non traded “non investable” the companies induce the index to show a rising trend, while most of the market companies are moving side way

Long Term : In the long Al Aman Indices present an accurate measure for the market performance as the

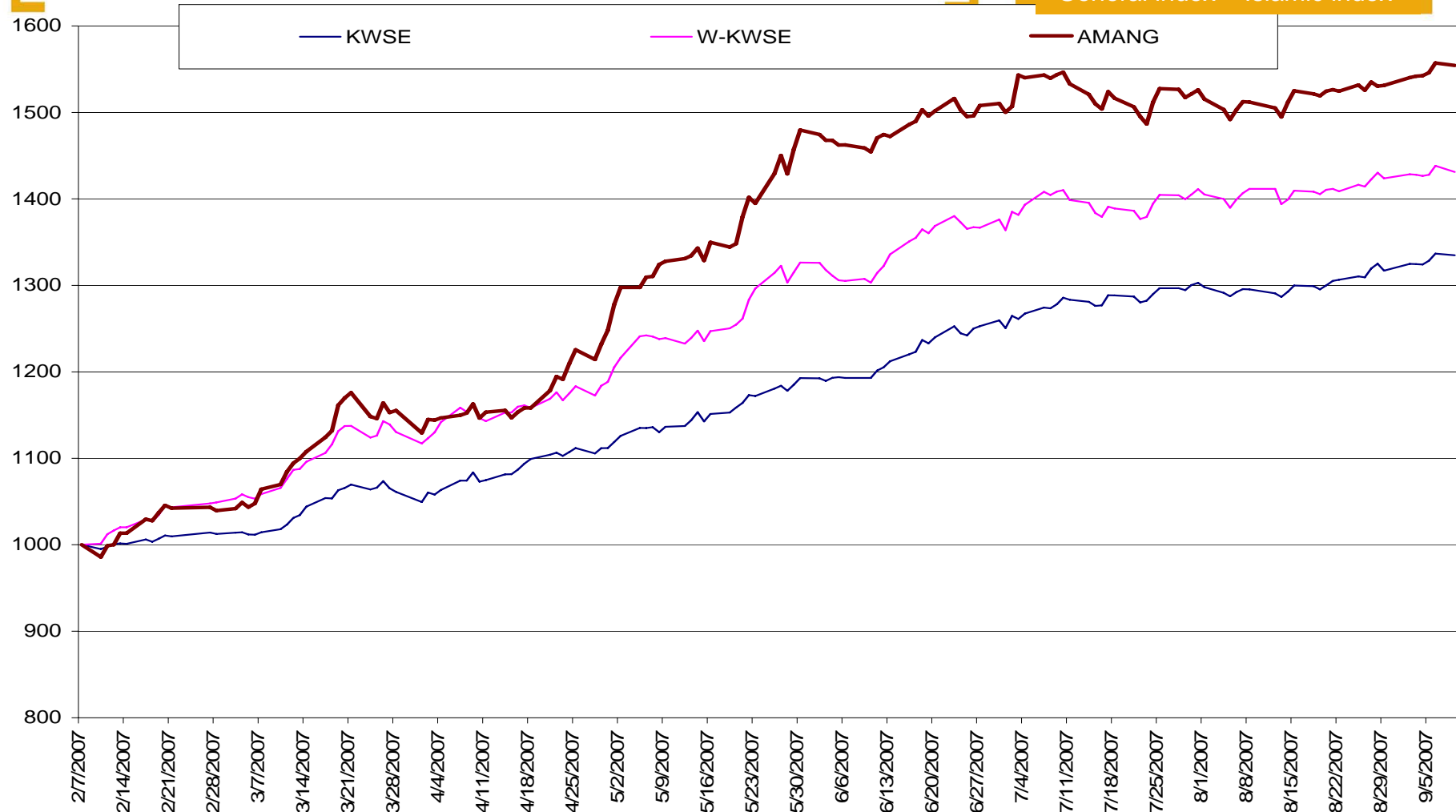
KWSE After Adjusting For The Last moment movement



Comparison of AMANG, KWSE, W-KWSE from 2-1-2005 to 7-2-2007



Comparison of AMANG, KWSE, W-KWSE from 6-1-20057 to 5-9-2007



Performance Comparison Table



Date	KWSE		W-KWSE		AMANG		AMANI	
	Close	Change %	Close	Change %	Close	Change %	Close	Change %
Jan 02, 2005	6449		337.6		5352		6644	
Feb 01, 2006	11923	%85	587.7	%74	9318	%74	10802	%63
Jan 06, 2007	9998	%16-	529.7	%10-	7654	%18-	8205	%24-
Sep 02, 2007	12761	%28	747.5	%41	11496.95	%50	11624.95	%42

Advantage Of AI Aman General Index In detecting The Turning Points in the Trend

