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Insights

from **Dow Jones Indexes**

A Quarterly Newsletter Devoted to Our Latest Innovations

JUNE 2009

Insights from Dow Jones Indexes

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Notes from the Editor



John A. Prestbo

Editor and Executive Director
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“Ways of Seeing” the Markets

Some years ago, philosophers, writers and thinkers of many stripes were consumed with a theoretical idea: that everything we beheld was a **“way of seeing.”** Put simply, it meant that any event or idea or circumstance was colored by our own perceptions. Two people might see a word like “held” and have vastly different reactions (“held me in her arms” or “held hostage”). The same thought was expressed for ideas—what was “enjoyment” or “hardship”?

I was reminded of this as we watched the markets make what many are terming a **comeback**. Some market observers wondered aloud if the rally starting in March marked the end of a **very difficult cycle**. Others—bears/pessimists—saw it as a temporary respite that would mimic “mini bull” markets during otherwise down times.

It was a financial market “way of seeing.” What was “recovery” or an “up market” or “better times”?

One thing we see is clear: Some players are making **plans for success**, no matter how the markets swing. Just as they did in the darkest days of the current downturn, many investment professionals are looking for whatever will get them to their “goals.”

For this issue of Insights, we spoke to people in Dow Jones as well as the greater markets about how they “see” what is necessary to make it in the markets. Interestingly, despite wildly **varying circumstances** in their narratives, a common, parallel thread emerged—innovation and adaptation were the keys.

We sat down with **Michael Ruetz, the Chief Risk Officer for the State of Maryland’s public pension system**. He had some interesting insights about the Old Line State’s approaches to investing (and his own semi-obsession with protecting its assets). But he also saw investment opportunities in a down market—and

looked at indexes like the Dow Jones U.S. Select RESI to keep track of the real estate market.

Marcela Garcés is one of Dow Jones Indexes’ newer salespeople, based in Latin America. In the three years since she joined our sales team, she has developed close personal relationships with her institutional clients. That has created a trust that allows her to propose innovative index ideas for their use.

In a series of conversations with **Craig Braswell**, Director of Index Operations for Dow Jones, we discussed the creation of a new index family: the **Dow Jones Total Stock Market (TSM) Indexes**. Forged upon the discontinuance of the Dow Jones Wilshire indexes, the TSM family allows clients to continue to have some of the best coverage available (100% of U.S. stocks; 98%+ of global markets; heavily followed REITs in the United States and around the world). Craig also gave us a lesson in the newest debate in global finance: “frontier” vs. “emerging” markets.

The staff at Insights had a bright idea: Why not find out just **which Dow Jones indexes did well during the darkest days of the meltdown?** Then they took it a step further, looking at which were among the first to start recovering in April 2009. Finally, they studied indexes that did well in 2008 and how they were doing in the second quarter of ’09 (and how the best of 2Q 2009 had done in 2008). There are some surprising results that might foreshadow a “recovery” (or lack thereof) later this year.

Jamie Farmer is a frequent contributor to Insights. This quarter, he tells us about an interesting new index “ripped from today’s headlines”: **The Dow Jones U.S. Economic Stimulus Index**. It follows the fortunes of the stocks of companies expected to reap the rewards of the American Recovery and Reinvestment Act of 2009. With trillions in Federal government dollars, loans and guarantees flooding different sectors of the economy, this index attempts to measure the companies that stand to benefit from the plan (and it might not be who you think).

Finally, we caught up with **Nizam Hamid of Barclays Global Investors (BGI)**. Nizam is the Head of Sales Strategy for iShares in Europe. He sees himself as an educator (or “translator”) on ETFs and indexes for some of the most knowledgeable and sophisticated investors. He thinks that markets are learning a valuable lesson that will help them be more cautious (and successful) in the future.

Each of these folks “sees” the markets acting and reacting. Here’s hoping it is with lessons learned for future benefit.

Nizam Hamid, Head of Sales Strategy for iShares in Europe

Some people have roles in an organization that beg explanation. Nizam Hamid is one of them. When asked to describe his role as Head of Sales Strategy in Europe for iShares, he hesitates and laughs.

"I'm a translator."

Nizam has been working in ETFs for many years. He has worked at Deutsche Bank and BGI. He currently sits on the advisory board of STOXX Limited. He has worked with some of the most sophisticated investment professionals in Europe and around the world, and sometimes the first step is explaining exactly what an ETF (or the index that underlies it) is and what it can do.

"I discuss strategy with people," he says in an interview from his office in London. "I help people understand how important these products can be for their portfolios; for diversification, etc. I work with hedge funds and private banks and institutional investors—the top people in their fields. Oftentimes, despite their being experts in a particular field, they need help understanding indexes and ETFs."

That is where he steps in. He serves as their "translator."

"Sometimes, it's just a matter of explaining and educating them—no matter how knowledgeable they might be—so that they can understand how an ETF can help them."

ETFs are extremely popular in Europe and iShares is one of the best-known makers of this product. They are useful for investors who want exposure to (or from) a sector, region or asset class, without having to wade in too deeply.

Nizam explains that iShares has garnered a leading position in the industry due to careful vetting of the products that underlie the ETFs—specifically, indexes. iShares seeks out the best with an eye on the most important factor: transparency (or, better put, the lack of it in many investment houses).

Bonds gain ground

"Let's talk about fixed income." He shows off a copy of a much sought-after guide to the product that iShares just published. "There's a general lack of transparency in this market since all bonds are traded OTC ("over the counter"; not on an exchange). In order to get investors to buy into a product, they need to understand it and know that it is properly managed. There has to be a trust since you cannot track the core components that make up the product, the ETF."

Nizam Hamid

"We exist to serve our clients' interests. They have constantly changing needs and we create ETFs to fill whatever voids exist in their portfolios."



iShares has built its reputation by allying itself with the best providers, says Nizam. That includes its widespread use of Dow Jones indexes. In fact, his firm has **165 ETFs based on Dow Jones and Dow Jones STOXX indexes.**

Indeed, it is Dow Jones's equity indexes that have built its reputation with buyers who may be more interested in other asset classes, such as commodities or bonds.

"The Dow Jones name is widely known and respected in Europe. It starts with the stock indexes like the **Dow Jones Industrial Average.** Everyone uses that. From there, the investment community here is open to the myriad of Dow Jones products available."

Fixed income and gold

Nizam sees trends emerging in 2009 as the markets recover from the shocks of 2008 and first quarter 2009. He points out that a large chunk of European institutional money is being directed to fixed income and commodities. He sees the migration as having several causes.

"The past 12 months have left a lot of traders more chastened. They now realize that maybe having 75-80% of their portfolios in stock wasn't such a great idea. Fixed income is considered a more conservative approach and helps balance things out. They can settle their money there and feel more secure than an equity product. Also, due to demographics—since Europe's population is aging—there's a desire to save, to preserve capital; not to gamble."

“As far as commodities go, gold—or should I say gold-related exchange-traded products—are really doing well, attracting a lot of capital. This is partially a lack of faith in the stock and other markets. The traders who are looking at gold ETFs don’t want fixed income. They don’t want the risk of corporate or even government defaults.”

New products for the markets

Nizam says that iShares is not allowing any market trends to dictate its product launches. As of May, they had put out **14 new ETFs** for the market—adding to an arsenal that is already the largest in Europe. This was done not just because there has been a serious influx of capital to the ETF market; but also due to iShares’ commitment to its clients.

“We exist to serve our clients’ interests. They have constantly changing needs and we create ETFs to fill whatever voids exist in their portfolios. It’s also evolutionary—our product development continuously changes to suit their new requirements. iShares helps clients plan for the long term. We never just focus on what’s ‘hot.’ Our clients are thinking years down the road; so are we.”

One of the reasons that iShares bases so many products on quality Dow Jones indexes is their breadth and depth, according to Nizam. iShares’ big institutions and bankers need a wide range of products for various purposes. Dow Jones—with its thousands of indexes, touching on nearly every imaginable investible security—suits that requisite.

Independence for advisors (and their clients)

What else lies in the future? Europe’s financial advisors (and their clients) might have more freedom for those who want more than just a few choices on funds for their accounts. Nizam thinks that the shake-up in markets will create new openness—and new alternatives—for Europeans. He thinks the change is “gradual, because everything is in flux. But that could benefit markets and investors—and society—in the future.”

Markets learning from their mistakes? Greater efficiency and openness? More opportunities?

With foresight like that, no wonder iShares (with people like Nizam) is an ETF market leader.

Featured Index

The Dow Jones U.S. Economic Stimulus Index

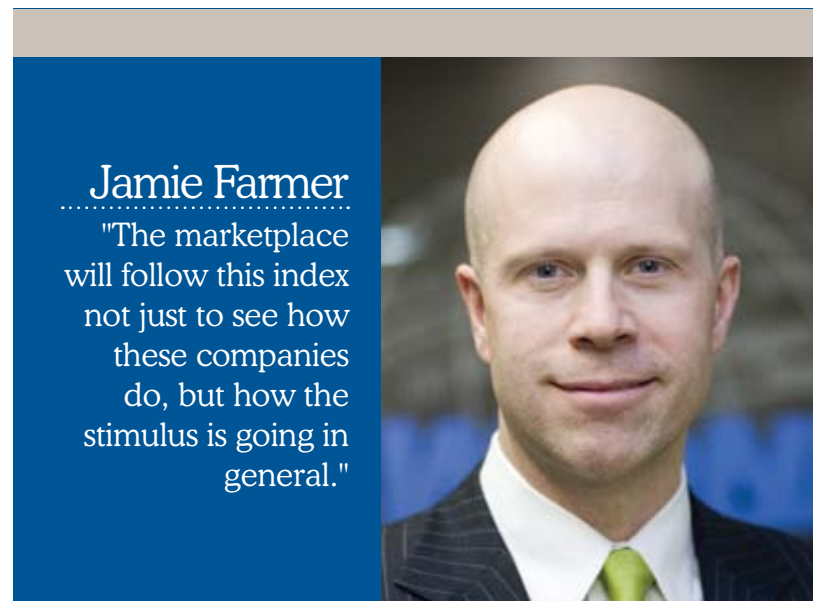
The financial service industry is nothing if not topical. Markets climb and topple based on minutes-old information that is communicated within seconds around the globe.

Indexing takes this one step further. One application of indexing is to look at the latest market ideas and to package them for broader consumption with a single number. This way, investors can follow not just a country or industry with an index, but also an idea.

Thus, there are such specialized (and popular) indexes as the **Dow Jones Summer/Winter Olympics Index**, **Dow Jones Luxury Index** and **Dow Jones Formula 1 Index**.

So when the Congress passed (and the President signed) the American Recovery and Reinvestment Act of 2009 (“the stimulus,” to everyone outside the Washington Beltway) this past February, Dow Jones Indexes decided to make an index that would track the companies that potentially would have the most to gain: the **Dow Jones U.S. Economic Stimulus Index**.

The Federal government has allocated \$787 billion to a variety of programs, dwarfing previous government efforts. At least \$200 billion



of that money is going to private companies for initiatives ranging from IT networking to education.

The Dow Jones U.S. Economic Stimulus Index covers some of the companies Dow Jones considers most likely to benefit from government largesse. They include some of the biggest, best known

firms—as well as upstarts pioneering new technologies—that could improve the way people live.

“The range of projects is tremendous,” says Jamie Farmer, Senior Director, Index Operations for Dow Jones Indexes. “Something on the order of \$150 billion is going towards specific infrastructure like roads, bridges, mass transit. It’s the most money being spent on these networks since the highway system was made in the 1950s.”

He is quick to point out that it is not just “traditional” infrastructure projects that got the green light from Washington. “New” energy and technology will also see dollars.

Enormous scale of projects

Years ago, a midwestern U.S. senator famously said, “A billion here, a billion there. Soon you’re talking real money.” Indeed, the amounts of money that could make their way to the following sectors are dizzying:

\$311 billion in appropriations (direct spending), including:

- \$120 billion to infrastructure and science
- \$14.2 billion to health
- \$105.9 billion to education and training
- \$37.5 billion to energy, including \$30 billion to infrastructure mentioned above

Jamie tries to give some understanding of not just the scale, but what it will mean for the country. He ticks off examples from a handwritten sheet:

“There’ll be the computerization of U.S. health records, which could possibly cut down on medical errors, saving billions in health care costs, as well as who knows how many lives. There’s money for renewable energy. The Fed’s goal is to double domestic renewable energy capacity in three years. That cuts our reliance on foreign oil. And they’re going to implement a weatherization program—the biggest in history—for 75% of Federal buildings and over a million homes. That should also save the government—and consumers—a lot of money in energy bills.”

Big companies, big advantages

The Dow Jones U.S. Economic Stimulus Index leans heavily towards some of the biggest (and best-known) companies. Jamie sees this as evidence of the advantage that large companies—especially those with nationwide operations—have when tapped for projects of this nature.

“The fact is that the biggest companies are always the best equipped to get on big projects,” says Jamie. “Sure, many small companies will get some contracts. Some of them are pioneering new technologies

and are positioned to fill important niches. But General Electric has been spending massively on alternative energy and it is more likely to have the resources to be considered ‘shovel ready.’ Big utilities like FirstEnergy may get money to expand their grid. ITT Educational Services can bring a lot more students into classrooms. Caterpillar will be making the tractors that may lead the charge. Home Depot could supply contractors.”

Indeed, the component companies of the index will be drawn from a variety of industries, reflecting the expansive nature of the spending that will take place. The Dow Jones U.S. Economic Stimulus Index includes not just those already mentioned—utilities, consumer services (education), consumer goods, technology and industrials—but also basic materials, oil & gas and telecommunications.

Jamie explains that the Dow Jones U.S. Economic Stimulus Index is also notable for what it lacks: financials and health care (aside from the technology-related spending).

“The banks and brokerages got bailout money during the previous administration and at the outset of this one, too. They were designed to be loans to save them from collapse. This is not stimulus money. They are not getting any of it. Same thing with health care. There might be other projects in the future, but not as part of this stimulus.”

Scale

Real estate investor Donald Trump recently announced that he was investing in a posh golf course in northern Virginia. His reasoning was simple: Like notorious bank robber Willie Sutton who, when was asked why he robbed banks, replied “Because that’s where the money is,” the stimulus is where the money is.

In the coming years, government spending will be as important as any. In fact, the component companies of the Dow Jones U.S. Economic Stimulus Index will be seeking out Federal contracts. Jamie marvels at the scale of the upcoming projects and the possible side effects in business and politics.

“The scale is really mind-boggling. Government is becoming a driving engine of the private economy. There are certain companies that seem positioned to gain from environmental initiatives like Clean Harbors, or Waste Management for the infrastructure. The marketplace will follow this index not just to see how those companies do, but how the stimulus is going in general. I think that politicians will be as interested in this index as any institutional investor.”

As this crisis has taught us, there is nothing surprising anymore. The Dow Jones Industrial Average is often quoted on Capitol Hill. Perhaps, the Dow Jones U.S. Economic Stimulus Index will soon join the Washington lexicon.

Michael Ruetz, Chief Risk Officer, Maryland State Retirement and Pension System

Michael Ruetz is not a fan of uncompensated risk. He uses the words “caution” and “prudence” the way that chefs use the words “cook” and “food.” And that is a good thing for 350,000 Maryland public employees and retirees, since he is the Chief Risk Officer for the state pension fund. His job is to ensure that the state invests its pension dollars without any undue hazard.

“We’re always looking for the best risk-adjusted returns,” says Michael, as he enumerates the various moves the state has made towards this goal in the past year. “Given the current market environment, we’re really trying to be cautious and prudent in our investments.”

Yet he is quick to make the distinction between care and paralysis.

“That doesn’t mean that we don’t seek new opportunities where we can find them. With markets down as far as they are—and with some signs of life lately—we’re just as diligent to uncover investment prospects, wherever they might be.”

The state of Maryland made a dramatic shift in investment priorities in September 2008. Under the leadership of its new **Chief Investment Officer Mansco Perry III**, the fund made changes in its various portfolios to reflect fresh and forward thinking.

The portion of the portfolio allocated to private equity increased from 5% to 15%. Absolute return investments went from 5% to 10%, as did real return. The new allocations will be “funded” by reductions in publicly traded equities and fixed income.

“Our main goal is getting the best risk-adjusted returns. Our focus is on the long term. The portfolio benefits from this type of strategic thinking. We reconsidered everything—again, with an eye towards prudent asset allocation. By being this vigilant with our members’ assets—we’re talking about \$28 billion in assets that support over 112,000 retirees and beneficiaries—we’re very well positioned to find those new investment opportunities, such as private equity.”

Continuing education (and discussion)

Michael gives a lot of credit to the staff and consultants who work in tandem to manage Maryland’s public pensions. He points out that communications and transparency are key to their operations and

Michael Ruetz

“There’s a lot of healthy discussion on every move that we make... we do our best by asking the right questions and getting the right answers.”



helps by keeping everyone on their toes, so to speak. He also thinks that this spirit of openness allows for a lot of frank, honest give-and-take that allows the Maryland staff to be certain that they have made the right investment decisions.

“There’s a lot of healthy discussion on every move that we make,” Michael explains. “I think that we do our best by asking the right questions and getting the right answers. This allows us to develop a concrete and fundamental understanding of long-term strategy and short-term as well. It gives you a big picture that everyone can understand, not just ‘financial experts.’ We have to be able to explain things in a clear and concise manner.”

As “sophisticated” as any investor, Michael still finds that money managers need constant education. He says that when considering indexes, he needed to “go to school” to find the right ones. He uses words like “demanding” and phrases such as “learning experience” to describe the process. But the idea that 200,000 Maryland teachers, state law-enforcement officials, judges, corrections officers and legislators are paying part of their hard-earned checks to him every two weeks keeps him on his toes.

“Indexing is vital to portions of our portfolio, but finding the right ones can be challenging, to say the least. When we’re doing our research—our ‘homework’—on benchmarks, we have to find the one best suited to our asset allocation philosophy. We had to learn what to ask: ‘How do we evaluate? What do we use as a performance metric?’ We started from scratch.”

Indexing to maintain balance

Once properly educated, Michael, the staff and consultants stuck with what they thought was working for them. Maryland currently uses the **Dow Jones U.S. Select Real Estate Securities Index (RESI)** for a portion of its real estate portfolio. It has been employing this index for years to measure the stock performance of companies involved in the real estate industry.

It is worth noting that the index was employed before the September 2008 changes and has been maintained afterwards because it gives a very clear picture of this market. After they were up on the use of indexes and benchmarks, the index made perfect sense since it was representative of their needs.

Multi-tasking in a fast-moving world

“I think that the toughest part is to find an index that reflects our priorities and our strategies. We’re looking for someone to keep up with us year by year. Our outlook is to be more exact; more specific.

The Dow Jones U.S. Select RESI Index is certainly helpful to us within our real estate sector. It’s an excellent gauge to evaluate how we’re doing in that area.”

Interestingly, Michael sees indexes as helping him to multi-task his duties. He views Dow Jones’s (and other providers’) indexes as doing a certain job so that his group can focus on other issues.

“Using an index like the Dow Jones RESI makes it easier for us to cover that market and then turn to something else. Once we learn that the index’s makeup is right for us, we can breathe easy and work on the next big thing.”

The Old Line State pension fund staff uses both “active” (asset-picking) and “passive” (indexing) in its investment philosophy. He sees them complementing each other—he likens it to lowering risk (his number one priority). If indexing helps this goal, it will continue to be a vital part of Maryland public investment strategy.

Featured Index Family

Dow Jones Total Stock Market Indexes

Call it a “parting of ways.” When the partnership agreement between Dow Jones Indexes and Wilshire Associates came to an end earlier this year, there was a mutual agreement not to renew it.

The most famous and well-followed index in the former Dow Jones Wilshire family was probably the Dow Jones Wilshire 5000, which covered every stock traded in the United States. In its place, there is a new index that covers the whole U.S. equity market: the Dow Jones U.S. Total Stock Market (TSM) Index.

In addition, Dow Jones Indexes can say—with hardly any exaggeration—that the new Dow Jones Total Stock Market Indexes truly “cover the world.” The family represents 65 countries and includes more than 98% of the world’s equity-market capitalization. It includes regional indexes (like the Dow Jones Middle East & Africa Total Stock Market Index) and country indexes (Dow Jones Chile Total Stock Market Index). To top it all off, there are size-segment indexes, style indexes (for the U.S.) and a full complement of sector indexes.

Craig Braswell is Director of Global Index Operations at Dow Jones Indexes. His team supported the former Dow Jones Wilshire family, and now maintains the new Dow Jones Total Stock Market Index family. They conduct all of the company research—adding, deleting and adjusting stocks as needed—and provide critical client communication and support services. He sees the transition to the

Dow Jones Total Stock Market Indexes as seamless.

“This index, the Dow Jones U.S. Total Stock Market Index, is identical to the predecessor index in every way,” says the Dow Jones veteran, who joined the firm in 1997. “We’re doing the same exact job. We have the same great people working on the indexes. They’re providing terrific customer service and maintaining the sub-indexes that make it up.”

Craig points out that his team provides the same level of support for all of the newly transitioned indexes.

“We’re doing the same thing for the Dow Jones Select Real Estate Indexes (formerly the Dow Jones Wilshire Real Estate Indexes). These indexes provide a very convenient way for portfolio managers to cover the real estate market via both RESIs and the stocks of companies in this industry. The continuity has been vital for our clients and we’re very proud we could do this for them.”

The Dow Jones team went to great lengths to ensure a smooth transition from the Dow Jones Wilshire Indexes to the new Dow Jones Total Stock Market Indexes and Dow Jones Select Real Estate Indexes. There was continual communication with clients, vendors and other affected parties.

“The feedback we’ve been getting is that they came to us initially for the Dow Jones Wilshire 5000, and now they’ve grown to depend on the calculations we do, the client notification of changes to indexes and our research support. Clients like that we’re accommodating, professional and responsive to their needs; that we put them first.”

“Full service”

Craig says that most of the Dow Jones TSM Index clients are either public pensions or boutique research shops purely interested in performance data; others are index-linked product issuers concerned with minutiae (“blueprints,” according to Craig) such as corporate actions.

The two groups have something in common—they report being happy with the service Dow Jones provides. He thinks that it is the attention to detail that his group is able to provide that makes the difference. There is constant communication with clients. Feedback is used to improve every aspect of the product, from creation of new indexes to their delivery. The team is dedicated to getting it right and making the product indispensable.

And that is something that those same clients seem to appreciate in a tough market climate.

“Dow Jones is a full service index provider. That’s what we do,” Craig explains. “We’re one of the very few in the industry who can make that claim. But it goes beyond that. It’s the global teams that should get all the credit.”

Craig points out that it is a genuine group effort.

“To track the more than 60 countries in the global index, we have research teams set up in Princeton, Zurich, Frankfurt and Beijing. They’re the ones who do the daily work that’s necessary. They keep up with an enormous flow of data that needs to be vetted to ensure each TSM index is successfully managed according to its rules-based methodology. You need resources to do a job like that and we have them.”

The creation of the new family is a big positive for everyone involved, says Craig. The Dow Jones team has been managing the indexes all this time, so he sees the opportunity to move forward without sacrificing quality.

“Now we have the independence to do what we really want to in terms of creating and managing products the clients want. We’re going to keep on producing indexes that are helpful to whatever goals they have.”

So, where does he see the family going in the future? Straight ahead, he says.

“Right now, we’re looking for new frontiers as far as index creation. We’re talking to the clients, getting their views on what’s needed. We’re scouring the marketplace, brainstorming ideas, looking for new prospective indexes. We also want to enhance what we have; to make it even better.”

Moving forward with a new product

Clients can be very demanding and they keep his team on its toes. But the group’s extensive background in the business, years of experience and superb technology make that no problem.

Indeed, when customers make a request, Craig and the team are quick to respond. In recent years, there had been increased interest in custom indexes whereby Dow Jones would create an index per the client’s specifications. But with the market being so unpredictable over the past year or so, clients have come to rely on indexes built, audited, maintained and calculated by Dow Jones Indexes.

“Right now, clients are saying, ‘You know us. You know what we need. Give us a very broad universe of indexes to choose from. We need safety or growth—or whatever else—and we want to have options.’ That’s easy for us because there’s no U.S. index broader than the Total Stock Market Index. The same can be said for our global indexes. We wade through those 12,000 stocks every day so that our clients can make the right indexing decision.”

Craig recounts how fervent some of his team members get when discussing the index and its components. Since it is so broad, almost everyone in his group of 60 team members works on it (as opposed to more narrow or niche indexes where smaller groups manage the process). They take ownership of the indexes and feel very strongly about them.

“Our meetings on these indexes are unlike any other. People get so passionate about them. I think it’s because we put so much effort into them, and because we’ve developed such close ties to our customers. It’s like our collective index. We all have a stake.”

That seems to be a sentiment echoed by clients’ faith in the products—and the people behind them.



Dow Jones-UBS Commodity IndexSM Review

April 2009

After a brutal 2008 for all commodity markets, 2009 has shown signs of a minor resurgence in certain sectors. While energy led many commodity sectors lower in 2008, and only gold posted a gain on the year, a partial easing of global economic concerns has helped to fuel '09 increases in many non-energy commodities. Interest in commodities is also probably benefiting, at least in part, from the concerns about increased inflation as governments around the globe allocate and deploy stimulus money to combat the recession.

Through the end of April 2009, the Dow Jones-UBS Commodity Index (Total Return) is down 5.63%, again driven in large part by the negative performance of energy commodities, which comprise the most weight of any sector in the index. The Crude Oil and Natural Gas subindexes are down more than 22% and 44% respectively due primarily to the recession.

The one subindex in the energy arena that has seen positive performance is Unleaded Gasoline, which is up more than 20% year to date. Certainly, the fall in the price of crude prices, driven by the slumping economy and supply gluts, would lead one to expect

lower gasoline prices. However, that same slumping economy led refiners to cut back production, resulting in lower gasoline stores and higher prices.

The most notable performance year to date comes from the Industrial Metals subindex. The performance of the index, which includes Copper, Zinc, Nickel and Aluminum, has benefited most notably from the 43%-plus increase in the Copper subindex. Copper prices have risen on sustained Chinese imports and expectations for greater demand due to stimulus dollars. Zinc has also contributed to the performance of the Industrial Metals subindex with year-to-date performance exceeding 14.86%. The Soft commodities subindex is up more than 7%, driven by increases in Sugar, Soybeans and Cotton.

The top five performing single commodity subindexes year to date are: Copper (up 43.16%), Unleaded Gasoline (up 20.61%), Zinc (up 14.86%), Sugar (up 14.14%) and Silver (up 8.69%). The bottom five performing subindexes are Natural Gas (down 44.18%), Crude Oil (down 22.36%), Lean Hogs (down 18.74%), Wheat (down 15.97%) and Heating Oil (down 11.98%).

COMMODITY TOTAL RETURN INDEXES	2008	APRIL YTD	WEIGHTS*
Dow Jones-UBS Commodity Index Total Return	-35.65%	-5.63%	100%
Dow Jones-UBS Copper Total Return Subindex	-53.06%	43.16%	9.80%
Dow Jones-UBS Unleaded Gas Total Return Subindex	-61.44%	20.61%	4.82%
Dow Jones-UBS Zinc Total Return Subindex	-50.98%	14.86%	3.44%
Dow Jones-UBS Sugar Total Return Subindex	-19.93%	14.14%	3.55%
Dow Jones-UBS Silver Total Return Subindex	-25.44%	8.69%	3.18%
Dow Jones-UBS Soybean Total Return Subindex	-21.17%	7.69%	2.88%
Dow Jones-UBS Cotton Total Return Subindex	-42.77%	7.10%	2.46%
Dow Jones-UBS Soybean Oil Total Return Subindex	-36.46%	6.80%	8.02%
Dow Jones-UBS Gold Total Return Subindex	3.91%	0.44%	8.24%
Dow Jones-UBS Coffee Total Return Subindex	-26.16%	-0.11%	2.99%
Dow Jones-UBS Nickel Total Return Subindex	-56.18%	-1.17%	2.71%
Dow Jones-UBS Corn Total Return Subindex	-21.90%	-5.74%	5.49%
Dow Jones-UBS Live Cattle Total Return Subindex	-26.20%	-6.15%	4.08%
Dow Jones-UBS Aluminum Total Return Subindex	-40.13%	-6.34%	6.50%
Dow Jones-UBS Heating Oil Total Return Subindex	-47.23%	-11.98%	3.19%
Dow Jones-UBS Wheat Total Return Subindex	-38.53%	-15.97%	4.16%
Dow Jones-UBS Lean Hogs Total Return Subindex	-31.93%	-18.74%	2.41%
Dow Jones-UBS Crude Oil Total Return Subindex	-53.23%	-22.36%	15.02%
Dow Jones-UBS Natural Gas Total Return Subindex	-37.09%	-44.18%	7.05%

*As of 4/30/09

Craig Braswell on “Frontier” indexes (as told to Insights)

“There’s no clear definition of a ‘frontier’ market. It’s a new term and it’s really in the eye of the beholder. It’s supposed to be a category of financial market that was either previously considered ‘emerging’ or has not yet made it into that category. Dow Jones tends to consider it to be a subcategory of emerging markets.”

“It’s a lot like the ‘developed vs. emerging’ debate that’s been going on for years: Is South Korea developed or emerging? What about Taiwan? Or Israel? There are good arguments on both sides. That’s what we’re talking about with frontier and emerging.”

“Right now, the challenge is to not just define the term ‘frontier,’ but to differentiate between it and emerging. I think that the best definition I heard was that an emerging economy is based on exports, while a frontier is not.”

“For example, Malaysia and Indonesia are two countries with very large industrial bases that cater to exports. They sell everything from oil and metals to sneakers and food to Asian, Australian and Western consumers. They have functioning, open financial markets and allow for investment from abroad. They are emerging markets and we have many, many indexes of which they are members.”

“As far as frontier goes, you could include a list of places like Bahrain, Mauritius and Romania. We have country indexes for each

and they are included in regional indexes, but they do not have the same infrastructure and track records as the others.”

“There is a fair bit of crossover as well, with markets being upgraded and downgraded. Take the most dramatic example: Iceland. Like Denmark, Sweden and Norway, Iceland has been classified as a developed market; however, following the sudden collapse of their banking system, their status as a developed market is in jeopardy. Or maybe Argentina—some people want to categorize it as frontier due to all sorts of new restrictions on the flow of capital into and out of its markets and economy. This is despite the fact that Argentina has an enormous industrial base and a long history in the markets.”

“On the other side, Pakistan, which had been taken off frontier, might get back on if it cannot stabilize and convince the markets that it is safe to invest in. Sri Lanka is looking up, so it might graduate from frontier to emerging—though some already classify it that way.”

“The truth is that we’re working on defining and creating frontier indexes. We have the Dow Jones Africa Titans 50 Index and the Dow Jones GCC (Gulf Community Council) Titans 50 Index—though you’ll find some emerging countries mixed in with the frontier countries.”

“Again, this is all so new and theoretical—and subjective. As frontiers open, the definitions will evolve. Talk to me in a year, and even then we’ll probably be having this same discussion. I guess the message is ‘stay tuned.’”

Market Insight

Well, *somebody* has to perform in down markets

The year 2008 will not go down as a favorite in the world of finance. Markets around the world, across industries and sectors, lost value that added up to trillions of dollars. The most oft-quoted index in the world—the Dow Jones Industrial Average—was down almost 34%. The Dow Jones Global Total Stock Market Index fell 43%. The list is long and haggard, like a column of soldiers retreating from a mauling on the battlefield.

However, there is an old Wall Street maxim: **For every loser, there is a winner.** And that was certainly the case in 2008. To find them, you have to “pan for gold” (another Wall Street-ism)—look for the occasional yellow ore in the muddy stream. As 2009 starts to turn out winners for the first time in over a year, it is informative to check out a few examples of who did well in 2008 (and how they are doing today).

A true “Clark Kent” (quiet, even boring on the outside; Superman on the inside) of the year was the **Dow Jones CBOT Treasury Index**, which rose 15.6% in 2008. It is a benchmark index of the default-free returns available in the intermediate and long dated sectors of the U.S. Treasury market. Its performance rose as “smart money”

got out of free-falling stocks and could find no relief in corporate bonds. It has an inverse relationship with interest rates, so as those fell, institutions grabbed (and pushed up the price of) Uncle Sam-backed paper. At one point, Treasuries were so popular that institutions were willing to buy 0% yielding notes; they were willing to literally get no interest whatsoever just to arrive in the “safe harbor” of government-backed securities.

Interestingly, the Dow Jones CBOT Treasury Index was down 0.71% in the first quarter of 2009 (though it rose 2.94% in March). This decrease appeared to reflect renewed confidence in both the stock and bond markets. Also, with interest rates hovering at the lowest rates in decades, it would be harder to push them down (driving up Treasury and other bond prices). There seemed to be a new willingness to bet that non-Treasury markets—stocks, bonds, commodities, futures, options—had seen their worst days and might actually start moving up again.

One of the biggest index gainers of 2008 was the **Dow Jones Swiss Electricity Price Index**. Based not on equities, but on the actual price of electricity to Swiss businesses and residences, it rose a whopping 42.48%. This was caused by a combination of factors, including new tariffs on renewable energy sources, skyrocketing fuel costs worldwide and Libya halting oil shipments over the detention of the country's president's son in Geneva on assault charges.

In a stark turnaround, the Dow Jones Swiss Electricity Price Index fell a precipitous 41.47% in the first quarter of 2009. Lower prices worldwide and a lifting of the Libyan sanctions helped Swiss consumers (but may have hurt Swiss electricity speculators, depending on their position).

Comebacks around the globe

A pair of 2008's worst performers turned it around in the first quarter of 2009. The **Dow Jones Cyprus Total Stock Market Index** was down 77.59% last year, but rose 32.01% in March of this year. The **Dow Jones South Korea Total Stock Market Index** lost 55.6% in '08 and rose 26.43% in March. However, they were both down for the first quarter of 2009 (18.53% and 0.54%, respectively).

Some of the toughest-hit indexes of last year saw more modest comebacks. The **Dow Jones Brookfield Communications Infrastructure Index** tumbled 39.44% in 2008, but had an 8.10% gain in 1Q '09. This may be due to the Federal stimulus plan that is heavy on “big ticket” infrastructure projects, like roads, bridges and broadband networks.

Latin America had some comeback stories in 2009: the **Dow Jones Brazil Total Stock Market Index** (down 55.62% last year; up 11.62% in 1Q '09) and the **Dow Jones Brazil Titans ADR Index** (down 51.83% last year; up 14.78% in March and 5.08% in

1Q '09). The **Dow Jones Chile Total Stock Market Index** sunk 41.90% in 2008 and rose 15.14% in the new quarter. The **Dow Jones Peru Total Stock Market Index** fell 24.12% last year but it also took a turn to finish the new quarter up 8.69%.

Regional indexes saw a few rare gains. The **Dow Jones BRIC 50 Index** lost 58.25% last year. But this index—which features 50 large companies from Brazil, Russia, India and China—rose 5.08% during the first quarter of 2009. The **Dow Jones Islamic Market BRIC 50 Index** (which excludes companies that do not satisfy Islamic restrictions on certain products and activities) had an even wilder swing—it was down 62.59% for '08; then up 7.92% in 1Q '09.

Speaking of China, the **Dow Jones China Offshore 50 Index** shed 49.96% in 2008 and then turned around to gain a modest 1.36% for first quarter 2009 (which was substantially higher than the bulk of similar indexes). The index represents Chinese stocks traded in Hong Kong and the U.S.

More dramatically, the **Dow Jones CBN China 600 Index** dropped 63.96% in 2008. It reversed course to have a stunning 39.26% gain in the first quarter of 2009. This increase coincided with a bull market in the Chinese exchanges.

Other Asian countries were hard hit in '08 but surged back in '09. The **Dow Jones SAFE 100 Index** (which represents selected companies traded on exchanges in Bangladesh, Bhutan, India, Maldives, Mauritius, Pakistan and Sri Lanka and United Arab Emirates), which launched March 11, 2009, suffered a 62.54% loss last year. But the index saw an overall 3.86% return for the first three months of 2009.

In fact, in South Asia, two countries truly stood out in the first quarter: Pakistan (**Dow Jones-JS Pakistan Islamic Index** and **Dow Jones Pakistan Total Stock Market Index** rose 31.62% and 10.69% for the first quarter after 2008 declines of 64.77% and 71.01%, respectively) and Sri Lanka (**Dow Jones Sri Lanka Index** up 9.66% vs. down 49.35%, in the same periods).

Other 2009 gainers and the road ahead

The world commodities market saw dizzying highs and cringe-inducing lows in the past year. The **Dow Jones Precious Metals Index** (which tracks the prices of companies that explore for gold, silver and platinum) fell 28.84% last year (despite the prices of the actual commodities rising). The index turned around and rose 8.5% in the first quarter.

In what might have been called a long shot not too long ago, the **Dow Jones Technology Titans 30 Index** rose 3.71% in 1Q 2009, after falling a hefty 43.74% in 2008. The **Dow Jones U.S. Technology Total Stock Market Index** was down 43.15% in 2008, but turned out a 4.85% increase in the first quarter of this year.

The big question people have been asking since the markets first started to turn down in 2008 is: When will it end? Others have asked: Will it ever end?

Financial market history has followed a pattern for decades: Markets go up; they go down; they come back up again. Some bear markets run longer than others. Bull markets do the same.

The problem is that no one knows when a market will “break” (though plenty of prognosticators from traders to cable news anchors to bloggers have an opinion). The point to remember is that even as general markets fall (or rise), there are generally some securities that go the other way.

Employee Profile

Marcela Garces, Sales Executive – Latin America

A discussion with Marcela Garces is a linguistic adventure. Fluent in Spanish and English, she goes in and out of the two languages with ease, making points and using colloquialisms to explain an idea.

It is all in a day's work for the Dow Jones Indexes salesperson. She is based in Mexico City, was born in Colombia and often communicates with (and travels to) people from a broad range of Latin American countries, from Costa Rica to Brazil. Marcela is fluent not only in the languages of the Americas, but in their cultures as well. She can hold forth on the Chilean pension system or how business gets done in Peru or the best place to have a business lunch in Panama City.

“In Mexico I have found that the ‘Dow Jones’ name is widely known and respected. It is actually super well-known,” says the former AIG financial advisor. “You will hear the English terms ‘Dow Jones Industrial Average’ and ‘Wall Street Journal’ in all kinds of Spanish business conversations. You could probably say the same thing about other countries, but I think Mexico is most tied into the U.S. markets and economy.”

Marcela joined the Dow Jones Newswires sales team in 2003 and came over to Dow Jones Indexes three years later. This background in sales helped her to transition into the position with the indexes group. She deals with what she calls a “super-sophisticated” institutional marketplace. To learn the business, she read everything she could find on the industry. She also attended numerous conferences around the region, meeting people and impressing them not just with Dow Jones product range (“So few people realize that we have over 130,000 indexes covering so many markets.”) but also with her ability to create strong interpersonal ties to clients. Now, she is sometimes a speaker at those same gatherings.

“Latin America, like many places—Japan, for instance—relies on these deep bonds between the parties in a business deal.” She explains that the “getting to know you” period with institutions takes patience. “I never push. I meet someone at my booth or on a panel; we exchange cards; I might follow up with an email; then a phone

Marcela Garces

“Once they know you, then you can start talking business—products and solutions.”



conversation. You develop a rapport with them. They want to know the kind of person they are dealing with and of course, the company as well. Once they know you, then you can start talking business—products and solutions.”

Understanding cultures

Institutional professionals in Latin America have outlooks that are often different from their North American, European and Asian counterparts, says Marcela. First off, Latin American funds tend to skew about 70% fixed income vs. 30% equity. They prefer their perceived safety.

Clients will also come to her with much longer term goals than others. She prefers to talk in this framework—years down the line, rather than the months or weeks that are the time frames of many traders.

Marcela can tell you what binds the Latin American markets: strong regulatory agencies (she uses the English term “watchdog” during a Spanish discussion) and a structure meant to protect mutual fund investors of all types and sizes. Diversification is the catchphrase all across the region. There is a strong desire to not get pulled down by any particular market movement. This philosophy has served

Latin America well, she says, as it has not been as badly battered as other parts of the globe.

“It’s incredible, but, although we were certainly not immune to the global financial crisis, we did not suffer like other places. The structure put in place by each nation’s regulators really saw to that. Latin American countries where most of my clients are—Mexico, Chile, Colombia, Peru, Brazil—these are strong markets and their watchdogs helped prevent a lot of potential problems. This helped to blunt the impact in our part of the world.”

The most sincere form of flattery

But that only goes so far. Marcela laughs when asked if there is much cooperation and coordination among the countries, like within the EU or even when the U.S. Federal Reserve makes moves with the Bank of England or the Japanese.

“No, there is no real coordination. It is more like imitation. If something works in Mexico, then Colombia will want to put it in place. If another idea is successful in Chile, you can be sure that the people in Peru will implement it. If it translates well, so to speak, the people in Brazil will do the same.”

She is quick to jokingly put in a caveat to those remarks. She knows the players well enough to not want to cast aspersions.

“Not that those are actual examples. You could say ‘vice-versa’ to each country I mentioned. There is a lot of friendly competition among the countries. I cannot say that one group ‘imitates’ the other.”

For a moment, Marcela thinks and then offers this:

“To tell you the truth, it is to their credit that they recognize excellence and want to emulate it. This works for me too, you could say. The widespread recognition of Dow Jones Indexes as a source of reliable, dependable market information is something else they have in common. Financial professionals in these different markets

use our indexes for a variety of purposes. When they say that they need coverage on debt, I tell them about the Dow Jones Corporate Bond Index—and they listen.”

Marcela finds the cultural norms of each market depend on the larger society. She has circumnavigated the often tricky world of Latin American business for years. What is acceptable or permissible in one place might be taboo somewhere else. Each bolsa (exchange) is different, as are the people and norms (“Some love American companies. Some only want to deal with Latin American products. Some give you all day to explain; some cut you off.”) Marcela works to understand those differences to best help the client—wherever they may be.

So, Marcela is asked, is it the combination of those deep ties you fostered with your clients combined with the Dow Jones moniker that pulls in business? At this, she laughs and switches between Spanish and English.

“I will tell you why I am laughing. Yes, absolutely, personal relationships are why I get the call. No question. But, you know, you mention ‘the Dow Jones name’ again. I have to tell you something: Here in Mexico, one of the biggest—how can I put this— ‘gentlemen’s clubs’ is called ‘The Dow Jones Club.’ Do not ask me why; it is just is. It is very well known. So, sometimes when I call someone and the receptionist says, ‘It’s Marcela from Dow Jones on the phone...’”

She laughs again.

“Well, let’s just say that they do not keep me on hold for very long.”

Marcela is good-natured about this somewhat jarring “coincidence.” However, in her world, it is her hard work and dedication to the clients (and the original “Dow Jones” name) that has made her so successful in Latin America.



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Launched May 2009

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Dow Jones Total Stock Market IndexesSM

Launched April 2009

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Dow Jones Select Real Estate IndexesSM

Launched April 2009

The Dow Jones Select Real Estate IndexesSM measure the performance of real estate securities traded globally. The indexes are derived from the Dow Jones Total Stock Market IndexesSM and are designed to serve as proxies for direct real estate investment.

Dow Jones SAFE 100 IndexSM

Launched March 2009

The Dow Jones SAFE 100 IndexSM measures the performance of 50 of the largest stocks trading in India and 50 of the largest stocks trading in Bangladesh, Mauritius, Pakistan and Sri Lanka.

Dow Jones SAFE Pakistan IndexSM

Launched March 2009

The Dow Jones SAFE Pakistan IndexSM is a subindex of the Dow Jones SAFE 100 IndexSM composed of Pakistan-traded securities.

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www.incisive-events.com

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Provider: The Software and Industry Information Association (SIIA)

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Provides members with educational and networking opportunities. For more information:

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Educates members on the latest strategies and issues relevant to public pension plan trustees and administrators. For more information:

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October 4-7, Athens, Greece

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