Brainy's Articles on

Share Trading**

Sectors and the banks

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page 1 of 5
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Introduction

When looking for investment candidates, is it useful to look at the performance of the relevant sector? Remembering that there are ten sectors to which stocks can be allocated.

The underlying theory supporting the study and comparison of sector performance is that if a sector is declining, then there must be something in the economy that's working against the stocks in that sector. Otherwise the decline would be limited to just individual stocks. And the converse is true — when a sector is rising, it suggests that most of the stocks in that sector must have a positive outlook that's caused by something in the general economy.

The notion of sectors and sector indexes, and which stocks are in which sectors, is not discussed very much, and results in a lot of confusion and misunderstanding for investors. This Article in Brainy's series on Share Trading and Investing (number ST-6260) discusses the topic of sectors, and in particular with reference to the banking and financials sector.

Readers should also see **Article ST-6250, "Strategy — GICS, indexes, sectors"** for an introduction to the topic of sectors, indexes and the GICS codes.

The ten sectors

Just to briefly recap, stocks on the Australian market can be allocated to one of ten GICS sectors:

- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples
- Health Care
- Financials
- Information Technology
- Telecommunication Services
- Utilities

These sectors are defined using the Global Industry Classification Standard (GICS)[1]. And the 200 stocks within the S&P/ASX 200 index (XJO) are grouped into the corresponding ten sector indexes. One of these sector indexes is the Financials sector index (code XFJ), and is discussed in more detail in the material below.

The financial sector

When looking at the banks and the so-called banking sector, it is important to note that there are three sector indexes that might be relevant to studies of the banking stocks as follows:

- XFJ (S&P/ASX 200 Financials sector index) — Currently includes 36 stocks from the S&P/ASX 200 index (XJO), including 16 REIT stocks (Real Estate Investment Trust).

- XPJ (S&P/ASX 200 A-REIT sector index) — A sub-set of the XFJ, currently comprises 16 REIT stocks from the list of 36 stocks in the XFJ sector index.

- XXJ (S&P/ASX 200 Financials sector index excluding A-REITs) — Another sub-set of the XFJ, but with the REIT stocks excluded. Currently comprises only 20 banking, finance and insurance stocks, not all of which are banks — some are non-banking financial companies. See a list of the constituent stocks on the next page.

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1   GICS — at Wikipedia http://en.wikipedia.org/wiki/Global_Industry_Classification_Standard

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