Comparison of Diversification of Constituents between Indonesian Equity Stock Indices and Indian Equity Stock Indices.

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Abstract

Stock Indices have come a long way since the world's first widely accepted stock index, namely Dow Jones Industrial Average was launched in the year 1897. In Asia, Asia's oldest stock exchange, Bombay Stock Exchange, was created in 1875 and the widely accepted stock index BSE was launched in the year 1986. In Indonesia, Jakarta Stock Exchange was set up in 1912 and Indonesia's widely accepted stock index, Jakarta SE Composite was created in 1982. Initially the usage of Stock Indices was limited to being aggregate benchmarks of stock performance, but over a period of time the usage become more sophisticated. Usage advancements started as basic index driven Portfolio trading, then to Index traded mutual funds and thereof to Exchange Traded Funds. As Index driven mutual funds, Exchange Traded Funds are based on an underlying stock index, hence the composition and diversification of stock indices has become extremely important. Diversification has been a method of de-risking investments ever since the advent of modern portfolio theory. This study is a comparison of diversification of top Stock Indices between Indonesia and India. Entropy has been used as a measure of diversification.

Keywords: Equity, Stock Index, Indonesia, India, Diversification, Entropy

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