The Implications of Real Estate Becoming a Sector

There is a change coming in industry classifications: S&P Dow Jones Indices and MSCI are moving real estate out of the financial sector and into its own sector. The change could have a wide-reaching effect. Among those potentially affected by the reclassification are many funds, portfolio allocation models and sector-rotation strategies.

A bit of background will explain why this change is noteworthy. S&P Dow Jones Indices and MSCI oversee the Global Industry Classification Standard, which is more commonly referred to as the GICS (pronounced "gicks"). It currently comprises 10 sectors, 24 industry groups, 67 industries and 156 sub-industries (excluding the forthcoming creation of the new real estate sector as well as the creation of a copper sub-industry). The GICS determines what sector or industry a particular publicly traded company is considered a part of. It underlies various funds, portfolio allocation models and likely sector-rotation strategies. It also used in various screening tools and trading systems.

It's not the only industry classification system out there. FTSE (the "ICB"), Morningstar and Thomson Reuters, for instance, have their own proprietary classification systems. (We use Thomson Reuters' classifications in our Stock Investor Pro database and screening program.) There are other organizations with their own classification systems. Though there is some overlap, there are enough differences between them to make apples-to-apples comparisons of results based on the various classification systems difficult.

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