SNS COLLEGE OF ENGINEERING

Kurumbapalayam (Po), Coimbatore – 641 107

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DEPARTMENT OF MANAGEMENT STUDIES

COURSE NAME : 19BA307 - INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

II YEAR / III SEMESTER

UNIT 2 - Securities Market

Financial Market Meaning

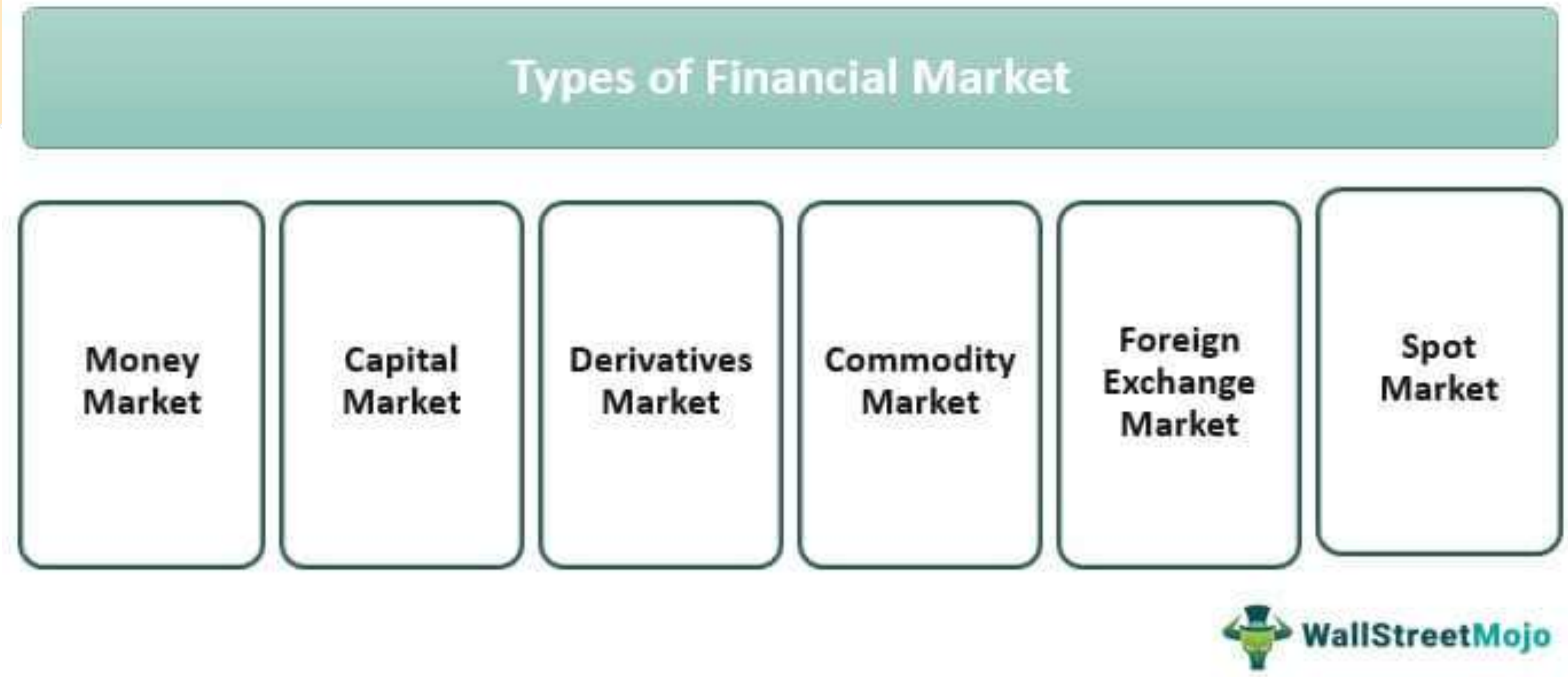
- ✓ A financial market is a market in which people trade financial securities and derivatives at low transaction costs.
- ✓ Some of the securities include stocks and bonds, raw materials and precious metals, which are known in the financial markets as commodities.

Financial Market Definition

- ✓ Financial markets refer broadly to any marketplace where the trading of securities occurs, including the stock market, bond market, forex market, and derivatives market, among others.
- ✓ Financial markets are vital to the smooth operation of capitalist economies.


Financial Markets
Bringing investors and borrowers together
Investors (lenders)
Financial Markets
Borrowers
Banks & other financial institutions
Governments and Companies
Bank of America
HSBC
JPMorganChase
Scotiabank
LLOYDS BANK
citigroup
CREDIT SUISSE
BNY MELLON
BNP PARIBAS
Deutsche Bank

Financial Market



Financial Market

1. Stock market

The stock market trades shares of ownership of public companies. Each share comes with a price, and investors make money with the stocks when they perform well in the market. It is easy to buy stocks. The real challenge is in choosing the right stocks that will earn money for the investor.

There are various indices that investors can use to monitor how the stock market is doing, such as the Dow Jones Industrial Average (DJIA) and the S&P 500. When stocks are bought at a cheaper price and are sold at a higher price, the investor earns from the sale.

Financial Market

2. Bond market

The bond market offers opportunities for companies and the government to secure money to finance a project or investment. In a bond market, investors buy bonds from a company, and the company returns the amount of the bonds within an agreed period, plus interest

Financial Market

3. Commodities market

The commodities market is where traders and investors buy and sell natural resources or commodities such as corn, oil, meat, and gold. A specific market is created for such resources because their price is unpredictable. There is a commodities futures market wherein the price of items that are to be delivered at a given future time is already identified and sealed today.

Financial Market

4. Derivatives market

- ✓ Such a market involves derivatives or contracts whose value is based on the market value of the asset being traded. The futures mentioned above in the commodities market is an example of a derivative.

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Importance of Financial Markets

There are many things that financial markets make possible, including the following:

- ✓ Financial markets provide a place where participants like investors and debtors, regardless of their size, will receive fair and proper treatment.
- ✓ They provide individuals, companies, and government organizations with access to capital.
- ✓ Financial markets help lower the unemployment rate because of the many job opportunities it offers

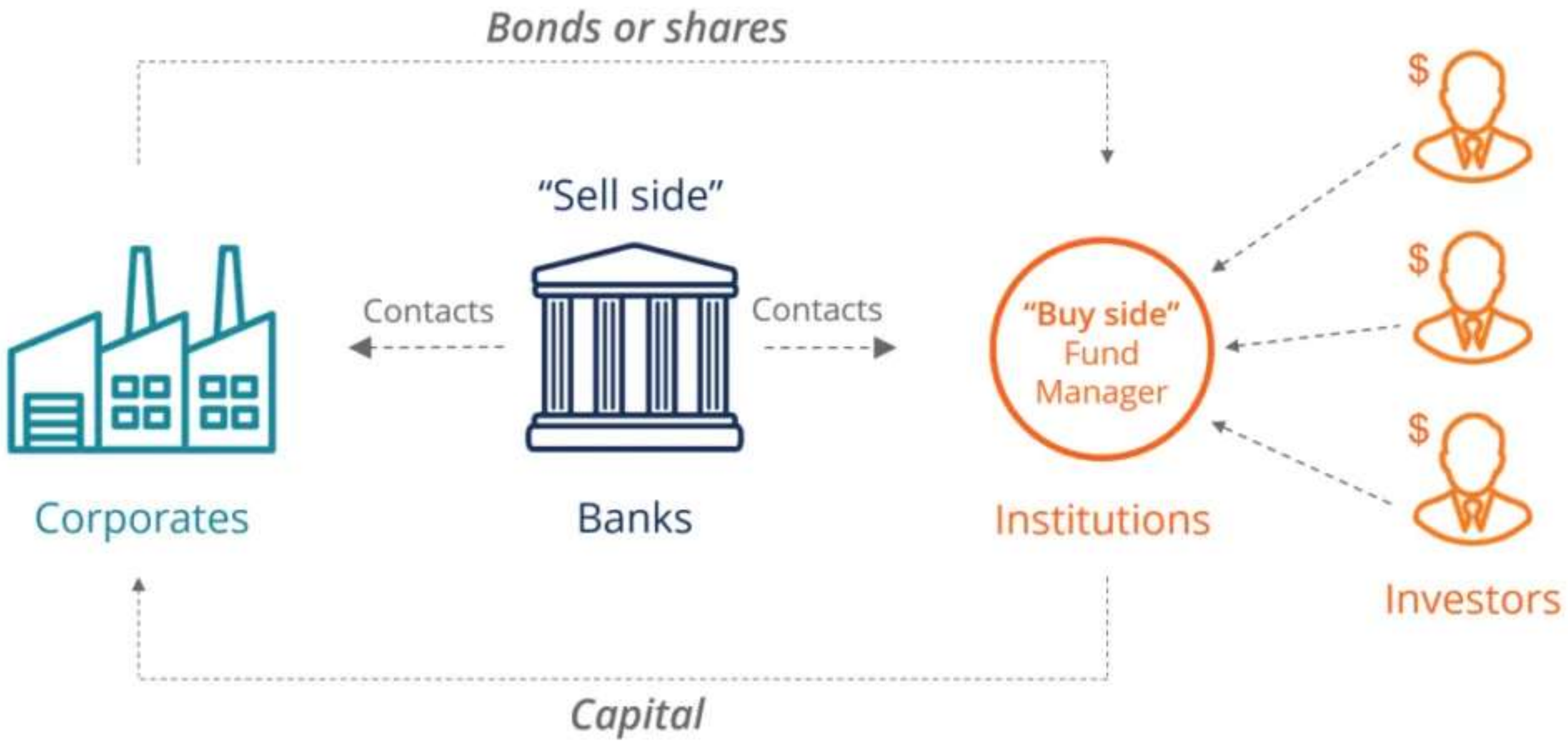
Financial Market Segments

Two segments of financial market are:

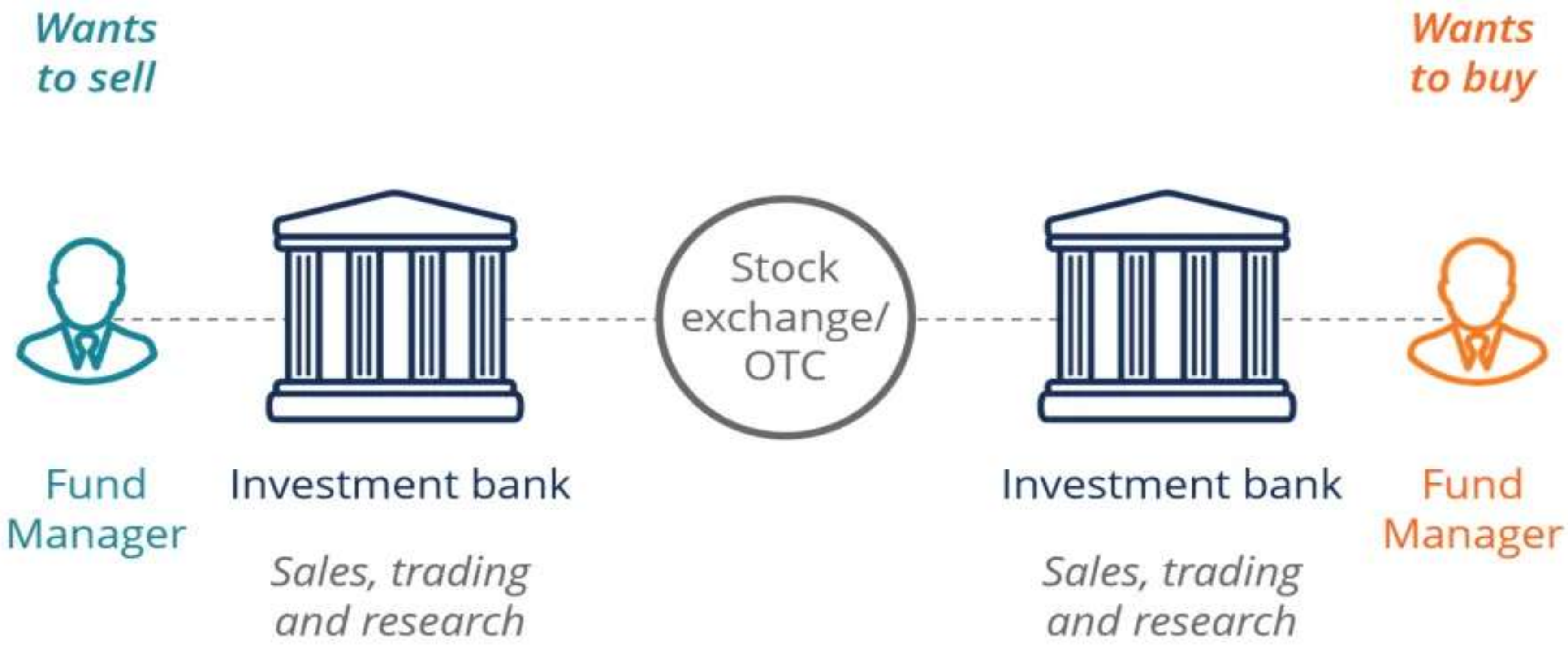
Primary Market:The transactions in primary markets exist between issuers and investors. It is the market for newly issued securities i.e securities which are issued for the first time.

Secondary Market:Secondary markets allow investors to buy and sell existing securities.

Primary Markets



Secondary Markets



Investment banks help facilitate the trade in shares and bonds.

IPO - Initial Public Offerings

- An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance.
- An IPO allows a company to raise capital from public investors.
- The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes a share premium for current private investors.
- Meanwhile, it also allows public investors to participate in the offering

FPO - Follow on Public Offer

- ✓ A follow-on public offering (FPO) is the issuance of shares to investors by a company listed on a stock exchange.
- ✓ A follow-on offering is an issuance of additional shares made by a company after an initial public offering (IPO).
- ✓ Follow-on offerings are also known as secondary offerings.

Book Building

- ✓ Book building is the process by which an underwriter attempts to determine the price at which an initial public offering (IPO) will be offered. An underwriter, normally an investment bank, builds a book by inviting institutional investors (such as fund managers and others) to submit bids for the number of shares and the price(s) they would be willing to pay for them.

- ✓ The process of price discovery involves generating and recording investor demand for shares before arriving at an issue price.

Methods of Floatation in Primary Market

1. Offer through Prospectus

- ✓ Offer through prospectus is the most popular method of raising funds by public companies in the primary market.
- ✓ After a prospectus is issued, the public subscribes to shares, debentures, etc.
- ✓ This involves inviting subscription from the public through the issue of the prospectus.
- ✓ A prospectus makes a direct appeal to investors to raise capital, through an advertisement in newspapers and magazines.
- ✓ As per the response, shares are prearranged to the public.
- ✓ If the subscriptions are very high, the allocation will be done on lottery or pro-rata basis.
- ✓ It provides such information as the reason for which the fund is being raised, the company's background and upcoming projection, it's a precedent financial performance, etc.

2. Offer for Sale

- ✓ Institutional investors like business enterprise funds, private equity funds, etc., invest in an unlisted company when it is very small or at an early stage.
- ✓ Under this method, securities are not issued directly to the public but are offered for sale through intermediaries like issuing houses or stock brokers.
- ✓ Consequently, when the company becomes big, these investors sell their shares to the public, through the issue of the offer document and the company's shares are listed in the stock exchange. This is called an offer for sale.
- ✓ The advantage of this technique is that the company need not be bothered about the printing and advertisement of the prospectus, allocation of shares, etc.

3. Private Placement

A private placement is the allotment of securities by a company to institutional investors and some selected individuals. Public offers are an exclusive concern. The subsidiary cost of IPO's lean to be very high. This is why some companies favor not to go down this route. It helps to raise capital more quickly than a public issue. They offer investment opportunities to a select few individuals. The private placement is the contradictory of a public issue, in which securities are made accessible for sale on the open market.

So the company will sell its shares to economic institutes, banks, insurance companies, and some select individuals. This will help them raise the funds competently, rapidly and efficiently. Such companies do not sell or offer their securities to the public at large. Financial institutions, mutual funds, investment bank, etc. subscribe to placement orders.

4. Rights Issue

Usually, when a company is looking to expand or are in need of supplementary funds, they first turn to their present investors. This is a privilege given to existing shareholders to subscribe to a new issue of shares according to the terms and conditions of the company. So the present shareholders are given a prospect to further invest in the company. They are given the "right" to buy new shares before the public is offered the chance.

Such shares are marketable in the market by the owners. Successful companies assume this technique for fundraising. The rights issue is advantageous to the company as the cost of issue is minimum.

5. e-IPOs

It stands for Electronic Initial Public Offer. A company proposing to issue capital to the public through the online system of the stock exchange has to enter into an agreement with the stock exchange. When a company wants to offer its shares to the public it can now also do so online. This is called an Initial Public Offer (IPO). An agreement is signed between the company and the related stock exchange known as the e-IPO. Issuing company also require to assign registrar to have electronic connectivity with the exchange.


Financial Market Participants
Central Banks
Governments
Banks
Market Makers
Corporations
Brokers
Retail Traders
Institutional Traders

Participants in the Financial Market

Banks

In the capital Market, (which is a market for financial investments that are direct or indirect claims to capital. It is wider than the Securities Market and embraces all forms of lending and borrowing, whether or not evidenced by the creation of a negotiable financial instrument) banks are participating. banks take an active part in bond markets. They may invest in equity and mutual funds as a part of their fund management.

Insurance Companies

The principal aims of the participants are to show the causes of institutional growth, the nature of institutional investors and the implications of their activities and growth. The participants draw on material from interviews with fund managers, econometric and statistical analysis, and studies of the individual countries' financial sectors.

Participants in the Financial Market

Primary Dealers (PDs)

They are a firm that buys government securities directly from a government, with the intention of reselling them to others, thus acting as a market maker of government securities. The government may regulate the behaviour and number of its primary dealers and impose conditions of entry. Their basic responsibility is to provide two-way quotes and act as market makers for government securities and strengthen the government securities market.

Stock Exchanges

They are a series of exchanges where successful corporations go to raise large amounts of cash to expand. Stocks are shares of ownership of a public corporation that are sold to investors through broker-dealers. The investor's profit when companies increase their earnings. It is essential that stock exchanges are corporatised and de-mutualised so that there can be greater transparency in the trades and better governance in markets.

Participants in the Financial Market

Custodians

They are a specialized financial institution responsible for safeguarding a firm's or individual's financial assets and is not engaged in "traditional" commercial or consumer/retail banking such as a mortgage or personal lending, branch banking, personal accounts, and Automated Teller.

Brokers

They usually arrange loans for a fee. They deal with the lenders for you and arranges a loan. They help build up order book, price discovery and are responsible for a contract being honoured. For their services, brokers earn a fee known as brokerage.

Participants in the Financial Market

Financial Institutions

Organizations and institutions in the public and private sectors also often sell securities on the capital markets in order to raise funds. They provide/lend long term funds for industry and agriculture. FIs raise their resources through long-term bonds from the financial system and borrowings from international financial institutions like International Finance Corporation.

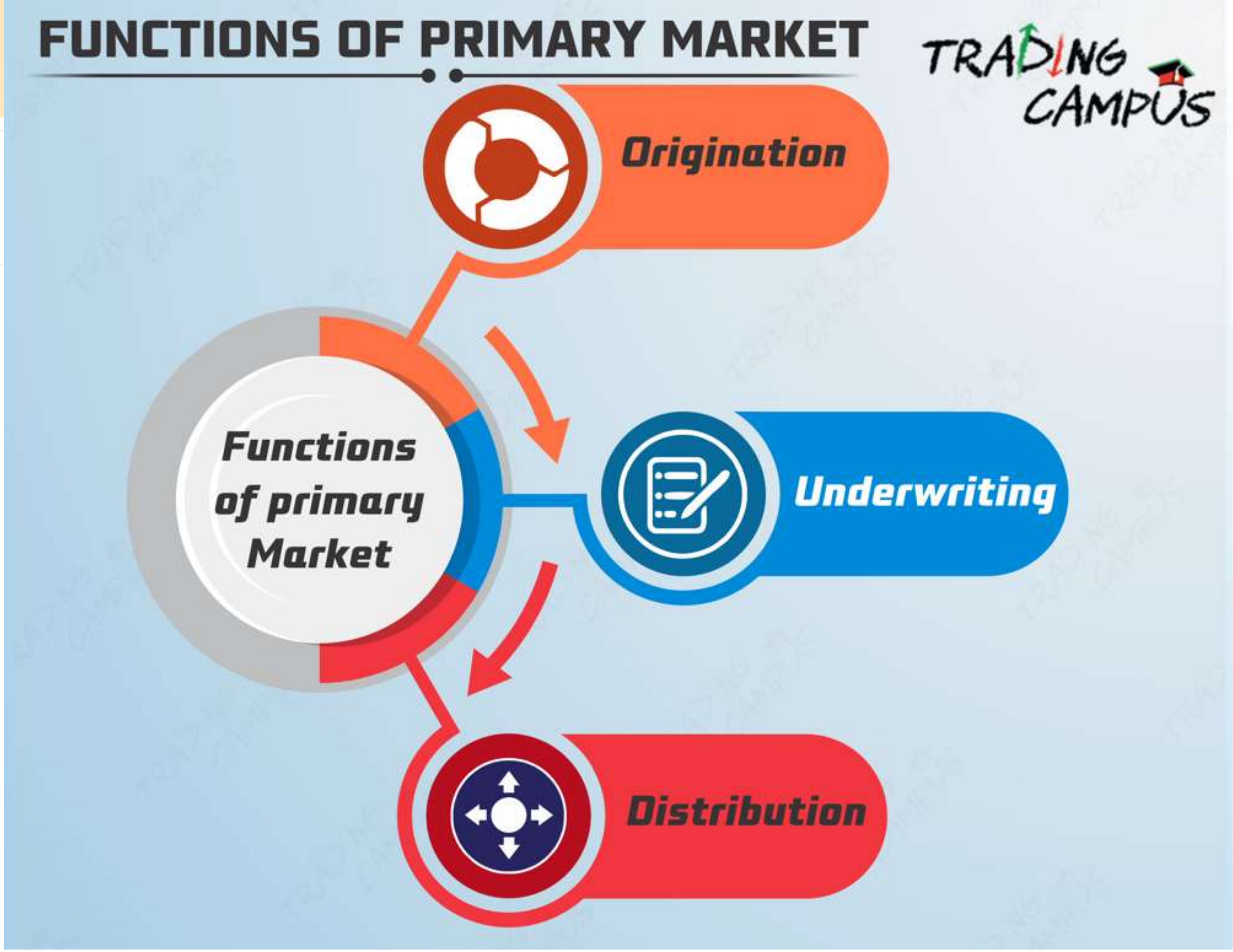
Depositories

They serve multiple purposes for the general public. As banks and other financial institutions, they give consumers a place to come in order to make deposits both time or demand deposits. Deposits can also come in the form of securities such as stocks or bonds. On instructions of stock exchange clearing house, supported by documentation, a depository transfers securities from buyers to sellers' accounts in electronic form.

Participants in the Financial Market

Merchant Banks

It a bank dealing in commercial loans and investment. Merchant banks were the first modern banks and evolved from medieval merchants who traded in commodities, particularly cloth merchants.


FUNCTIONS OF PRIMARY MARKET
TRADING CAMPUS
Origination
Functions of primary Market
Underwriting
Distribution


Features of Primary Market
It Is Related With New Issues
It Has No Particular Place
It Has Various Methods Of Float Capital: Following are the methods of raising capital in the primary market:
i) Public Issue
ii) Offer For Sale
iii) Private Placement
iv) Right Issue
v) Electronic-Initial Public Offer
It comes before Secondary Market

Role of primary market

- provides the channel for sale of new securities
- provides opportunity to issuers of securities; Government as well as corporates
- capital formation
- diversification

Derivative

Options

XXX 5

220 15

230 10

240 7.5

CALL (BUY UP) 5 250 5 PUT (SELL DOWN)

7.5 260

5 270

2.5 280

0 290

0 300

0 310

PORTFOLIO

IRCTC railway - 15

Adani Green Energy - 15

Gujarat Gas/ Indraprasath Gas and Oil - 15

Bajaj Finserv Finace - 5

Kotak Mahindra Bank Bank - 5

Reliance Ind - 5

Apollo Hospital - 10

Dalmia Cement Cement - 10

HG Infra/ PNC Infra Infra - 10

L&T / KNR Construction - 10

Britannia / Gillette - 10

MRF - 10

Torrent Pharma Pharma - 10

p & g / itc - 5

Official Website

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Thank You