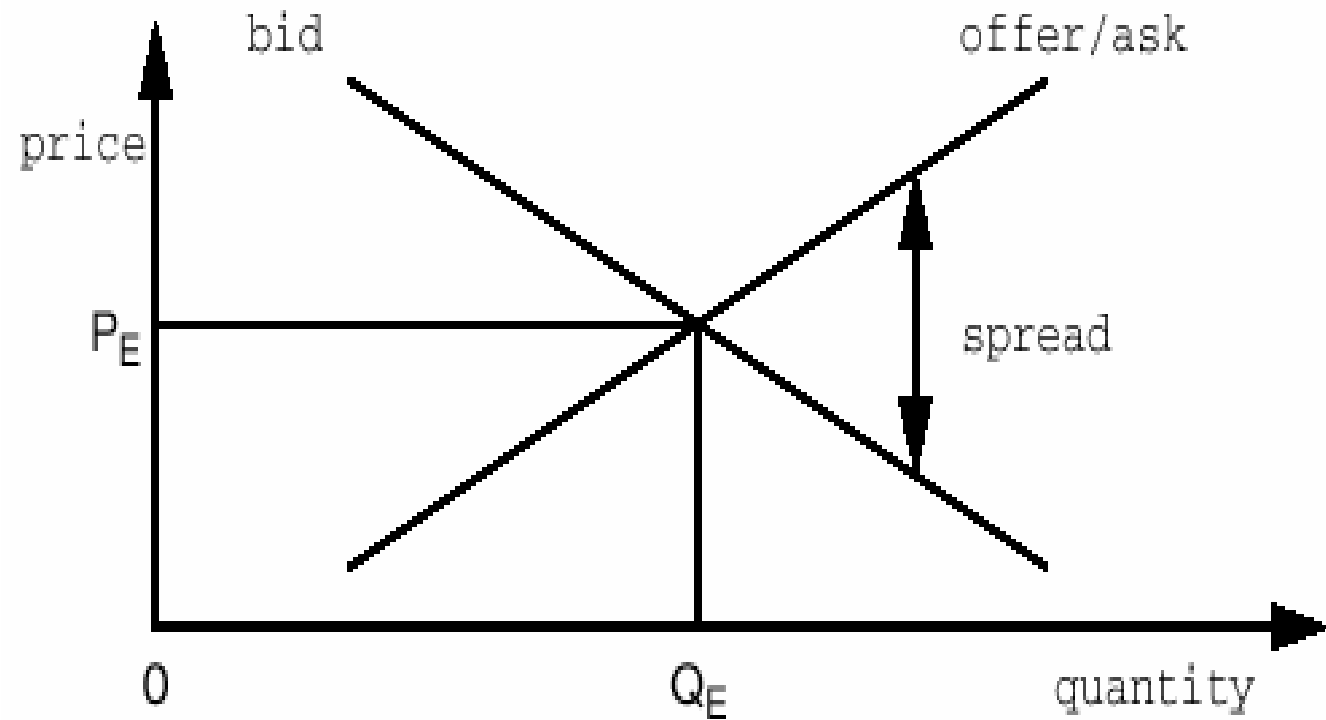


FINANCIAL MARKETS

Market Charakter (classification)

Market karakter



Market karakter

- **Breadth** market
- **Thin** market
- **Depth** market
- **Shallow** market

- Market **elasticity**

Breadth/Thin Market

- The fraction of the overall market that is participating in the market's up or down move. Looking at this parameter allows investors to reduce the impact of the large cap stocks which influence market indices the most, and instead examine price trends of a diverse range of stocks.
- This parameter is important in the context of technical analysis, as a measure of market sentiment.
- Market breadth is also used to refer to the number of independently issued price forecasts for a certain number of stocks (less common)

Depth Market

- The number of shares of a security that can be bought or sold without causing an appreciable change in price.
- Factors
 - Tick size
 - Price movement restrictions
 - Trading restrictions
 - Allowable leverage
 - Market transparency

Shallow market

- A market with few bid and ask offers.
- Characterized by low liquidity, high spreads, and high volatility.
- Small changes in supply and/or demand can have a dramatic impact on market price.
- Also called narrow market.
- Opposite of liquid market.

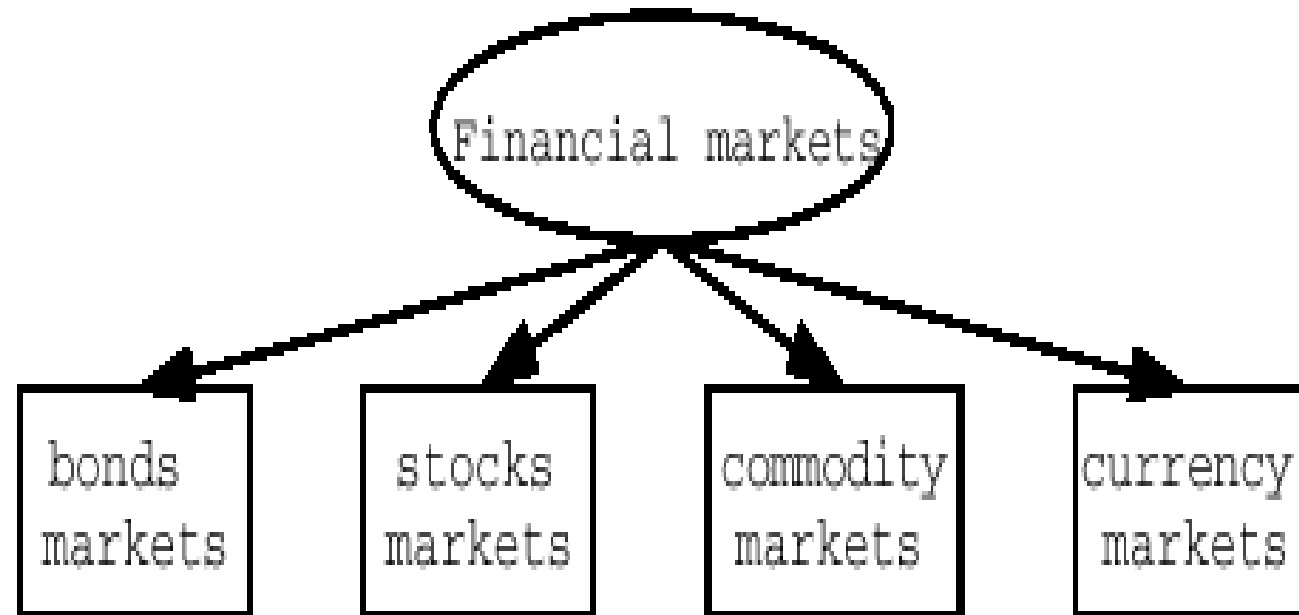
Financial Market classification (1)

- Form trade
 - Physical
 - electronic
 - Period trade
 - Continuous
 - Auction-call market
 - Maturity of products
 - Money market
 - Capital market
 - Activations financial instruments (durability)
 - Primary markets
 - Secondary markets
-

Financial Market classification (2)

- Segmentation and character financial instrument
 - Bond
 - Stock
 - Commodities
 - Currencies
- Origin of emittens and emission locality
 - National markets (intern)
 - Domestic markets (inland)
 - Foreign markets
 - Euromarkets (international)
- Contract time and market realization
 - Prompt market (spot)
 - Term market (future forward)

Segmentation financial markets



Financial Market efficiency

- Allocate efficiency
- Information efficiency
 - Low
 - Medially
 - Strenght
- Operation efficiency

SECURITY TYPES

Security

- Security is transferable financial instrument possible to trade on primary and secondary securities markets.
- At a present time just a note in computer database.

Classifying Securities

- **a) after subjects issue**

- State
- stock company,
- Investment company
- juridical person

- **b) currencies**

- inland
- foreign
- euro currency

- **c) convertibility**

- Nameless - owner stock – unlimited convertibility
- Name stock – convertibility only with owner agreement,

Classifying Securities

- **d) after yield**
- Fix yield
- Variable yield
- Mix yield

- **e) maturity**
- Fix
- Floating

Investor can

Invest directly in

- Money market securities
- Capital market securities
- Other types of securities

Invest indirectly in

- Money market securities
 - Capital market securities
 - Other types of securities
 - Use a combination of direct and indirect investing
-

Security Types

- Our goal in this chapter is to introduce the different types of securities that investors routinely buy and sell in financial markets around the world.
- For each security type, we will examine:
 - Its characteristics,
 - Its potential gains and losses, and
 - How its prices are quoted in the financial press.

Classifying Securities

Basic Types	Major Subtypes
Interest-bearing	Money market instruments Fixed-income securities
Equities	Common stock Preferred stock
Derivatives	Options Futures

Interest-Bearing Assets

- **Money market instruments** are short-term debt obligations of large corporations and governments.
 - These securities promise to make one future payment.
 - When they are issued, their **lives are less than one year**.
- **Fixed-income securities** are longer-term debt obligations of corporations or governments.
 - These securities promise to make fixed payments according to a pre-set schedule.
 - When they are issued, their **lives exceed one year**.

Money Market Instruments

- **Examples:** U.S. Treasury bills (T-bills), bank certificates of deposit (CDs), corporate and municipal money market instruments.
- **Potential gains/losses:** A known future payment/except when the borrower defaults (i.e., does not pay).
- **Price quotations:** Usually, the instruments are sold on a **discount basis**, and only the interest rates are quoted.
- Therefore, investors must be able to do calculate prices from the quoted rates.

Fixed-Income Securities

- **Examples:** U.S. Treasury notes, corporate bonds, car loans, student loans.
- **Potential gains/losses:**
 - Fixed coupon payments and final payment at maturity, except when the borrower defaults.
 - Possibility of gain (loss) from fall (rise) in interest rates
 - Depending on the debt issue, illiquidity can be a problem. (Illiquidity means it is possible that you cannot sell these securities quickly.)

Quote Examp. Fixed-Income Securities

- Price quotations:

AT&T, the issuer of the bond.

The bond will mature in the year 2022.

BONDS		NEW YORK BONDS			
		Corporation Bonds			
		CUR YLD.	VOL	CLOSE	NET CHG.
ATT	6 1/2 13	6.6	153	97.75	-0.13
ATT	8 1/8 22	8.1	651	100.88	+0.25
ATT	8 1/8 24	8.0	316	101	-1.50

The annual coupon rate. You will receive 8 1/8% of the bond's face value each year in 2 semi-annual coupon payments.

Quote Examp.Fixed-Income Securities

- Price quotations:

Current Yield =
Annual Coupon / Current Price

The closing price for the day is
100.875% of face value.

NEW YORK BONDS
Corporation Bonds

BONDS	CUR YLD.	VOL	CLOSE	NET CHG.
ATT 6 1/2 13	6.6	153	97.75	-0.13
ATT 8 1/8 22	8.1	651	100.88	+0.25
ATT 8 1/8 24	8.0	316	101	-1.50

The number of bonds traded that day.

The closing price is up
by 0.25 of one percent
from the previous day.

Equities

- **Common stock:** Represents ownership in a corporation. A part owner receives a pro rated share of whatever is left over after all obligations have been met in the event of a liquidation.
- **Preferred stock:** The dividend is usually fixed and must be paid before any dividends for the common shareholders. In the event of a liquidation, preferred shares have a particular face value.

Common Stock

- **Examples:** IBM shares, Microsoft shares, Intel shares, etc.
- **Potential gains/losses:**
 - Many companies pay cash dividends to their shareholders. However, neither the timing nor the amount of any dividend is guaranteed.
 - The stock value may rise or fall depending on the prospects for the company and market-wide circumstances.

Common Stock Price Quotes

THE WALL STREET JOURNAL.

NEW YORK STOCK EXCHANGE COMPOSITE TRANSACTIONS

THURSDAY, JANUARY 16, 2003

YTD % CHG	52-WEEK HI	52-WEEK LO	STOCK (SYM)	YLD DIV	%	PE	VOL 100s	CLOSE	NET CHG	YTD % CHG	52-WEEK HI	52-WEEK LO	STOCK (SYM)	YLD DIV	%	PE	VOL 100s	CLOSE	NET CHG										
J																													
1.9	13.20	10.01	JDN Rity JDN	1.04m	9.3	16	6060	11.16	...	9.4	11.40	5.38	LongvFibr LFB	...	...	...	602	7.91	0.11							
-8.1	17.61	6.78	JLG Ind JLG	.02	.3	28	1036	6.92	-0.14	-11.6	2.79	0.22	Loral Space LOR	...	...	...	24176	0.38	-0.05							
1.4	25.88	19	JPMChase J JPMJn	1.75	6.7	...	988	25.95	0.20	-2.0	12.55	5.35	LA Pac LPX	...	dd	...	6123	7.90	-0.55										
12.8	38.75	15.26	JPMorgChas JPM	1.36	5.0	33	80176	27.08	-0.51	1.3	49.99	32.50	Lowes Cos LOW x	.10	.3	22	39587	38	0.30										
1.3	26.80	21.50	JPMrganCap IX	1.88	7.1	...	197	26.55	-0.10	2.7	36.36	26.20	Lubrizol LZ	1.04	3.3	13	1573	31.32	0.07										
2.8	26.79	11.13	JabilCircuit JBL	...	cc	...	21033	18.43	-0.57	-3.4	7.33	2.75	Lubys LUB	...	dd	...	437	2.81	-0.03										
-0.5	34.20	14.25	JackInTheBx JBX	...	8	...	3561	17.20	0.09	37.3	5.91	0.55	LucentTch LU s	...	dd	473340	1.73	-0.11											
8.2	42.90	26.10	JacobEngrg JEC s	...	19	...	4622	38.52	-0.51	-4.2	20.90	11.60	LuxottGp LUX	.15e	1.1	...	4403	13.08	-0.40										
4.2	19.40	14.85	JamesHardie JHX	1.38e	7.0	...	6	19.65	0.30	4.3	16.10	9.60	Lydall LDL	...	16	...	152	11.84	0.24										
7.6	27.73	8.97	JanusCapGrp JNS	.04	.3	9	10706	14.06	-0.39	2.8	17.59	10.33	Lyondell LYO	.90	6.9	dd	23059	13	0.53										
14.8	27.70	8.19	JardenCp JAH s	...	21	...	1206	27.40	0.90	M																			
0.8	52.10	33.14	JeffriesGp JEF	.20	.5	18	2138	42.32	-1.66	-0.3	26.44	23.85	MSCapTr MWJ	1.81	6.9	...	610	26.13	-0.12										
5.0	53	36.35	JeffPilot JP	1.21	3.0	13	4862	40.02	-0.76	8.4	39.35	18.17	MAXIMUS MMS	...	16	...	352	28.30	0.01										
5.9	9.80	5.75	JilinChem JCC	...	...	...	3	7.84	-0.08	36.1	7.80	2.10	M&F Wrldwd MFW	...	cc	...	363	7.35	...							
11.0	33.98	9.50	JoAnnStrs A JASA	...	13	...	1555	25.50	0.50	4.3	90.05	67.70	M&T Bnk MTB	1.20f	1.5	16	3153	82.75	-1.69										
8.6	26.84	8.40	JoAnnStrs B JASB	...	11	...	145	21	-0.04	5.2	60.11	34.93	MBIA MBI	.68	1.5	11	5358	46.15	-0.89										
6.8	41.60	25.84	JHancock JHF	.22m	.7	18	5752	29.80	-0.50	4.2	26.30	12.95	MBNA Cp KRB s	.28	1.4	15	32690	19.82	-0.39										
0.9	31.05	20.12	NuveenJ JNC s	.52	2.0	21	431	25.59	-0.40	4.9	53.10	29.75	MDC Hldgs MDC	.32	.8	7	2438	40.13	-0.74										
2.4	65.89	41.40	JohnsJohns JNJ	.82	1.5	26	76603	55	-1.36	4.0	16.71	12	MDS MDZ	.10fg	.7	20	5	14.50	-0.05										
2.6	93.20	69.10	JohnsCtrl JCI	1.44f	1.8	13	6671	82.25	-0.97	1.3	33.45	18	MDU Res MDU	.96	3.7	14	2485	26.14	0.14										
-0.7	41.68	26.18	JonesApparel JNY	...	15	...	7727	35.19	-0.77	14.9	11.50	2.25	MEMC Elec WFR	...	...	...	798	8.70	-0.08							
-4.1	24.80	14.04	JonsLngLaSal JLL	...	87	...	443	14.75	0.05	9.6	74.40	33.60	MGIC Inv MTG	.10	.2	8	6726	45.27	-0.76										
0.0	22.20	16.07	JrnlRgstr JRC	...	17	...	1437	17.78	0.02	-14.9	42.03	26.35	MGM Mirage MGG	...	16	...	18091	28.05	-1.07										
										-10.6	13.50	0.60	MHIX Grp MHU	...	dd	...	38	1.60	-0.01										
										4.2	39.29	23	MI SchottHm MHO s	.10	.3	7	222	28.98	0.08										

Preferred Stock

- **Example:** Citigroup preferred stock.
- **Potential gains/losses:**
 - Dividends are “promised.” However, there is no legal requirement that the dividends be paid, as long as no common dividends are distributed.
 - The stock value may rise or fall depending on the prospects for the company and market-wide circumstances.

Money Market securities

- Money market (the maturities from one day to one year)
 - the market for short term , highly liquid, low risk assets
 - **Treasury bill (T-bill)**
 - Sold at discount by government
 - 13-26 weeks
 - **Negotiable certificates of deposits (CDs)**
 - 14-days – one year
 - **Commercial paper**
 - Well-known and financially strong corporations
 - 270 days or less
 - **Eurodollars**
 - **Repurchase agreement**
 - **Bankers acceptance**
-

Capital Market - Fixed income securities

- Fixed income securities with specified payment dates and amounts
- Federal government securities
- **Treasury bonds** –maturity of 10 to 30 years
- **Federal Agency securities**
- Issued by federal credit agencies (fed.financ. bank)
- **Municipal bonds**
- Issued by political entities – states, cities
- **Corporate bonds**
- Long term debt securities of various types sold by corporations
- **Preferred stock** – equity security with an intermediate claim on a firm's assets and earnings

Other types - Equity derivative securities

- **Equity derivative securities**
 - Securities that derive their value in whole or in part by having a claim on the underlying common stock
 - **Warrant**
 - A corporate created option to purchase a stated number of common shares at a specified price within a specified time (typically several years)
 - **Convertible Securities**
 - Bonds or preferred stocks, that are convertible", at the holders option, into shares of common stock of the same corporation
 - **Option**
 - The right but not the obligation to buy or sell shares of stock within a specified period at a specified time.
 - Put – an option to sell, Call – an option to buy
 - **Futures contracts**
 - Agreement providing for the future exchange of a particular asset at a currently determined market price.
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