

## Securities Markets & Investments

## Types of Capital Markets

- **Primary Capital Markets**
  - Market in which an investor purchases financial securities directly from the issuer
  - Investment Banks
    - Assists corporations in raising funds
  - High-risk Investment
    - Uncertain hope of earning a relatively large profit in a short time

## Types of Capital Markets

- **Secondary Capital Markets**
  - Market for existing financial securities traded between investors
  - Securities Exchanges
    - Marketplace where member brokers meet to buy and sell securities
    - New York Stock Exchange (NYSE)
  - Over-the-Counter Market (OTC)
    - Network of Dealers who buy & sell the stocks of corporations not listed on the securities exchange
    - Nasdaq

## NYSE Criteria

- **Annual EBT: \$2.5 million for the last tax year**
- **Shares of stock held publicly: 1.1 million**
- **Market value of publicly held stock: \$100 million or higher**
- **Number of stockholders owning at least 100 shares: 2,000**

## Role of Account Executive

- **Account Executive**
  - Buys & sells securities for clients
  - Local Stockbroker
  - Floor Broker: Brokerage Firm's representative on the floor of the exchange
  - Specialist: Facilitates transactions at the trading post
- **Mechanics of a Transaction**
  - Market Order: Security bought or sold at the current market price
  - Limit Order: Buyer specifies maximum or minimum acceptable price
  - Discretionary Order: Lets the broker decide when to execute the transaction & at what price
- **Commissions**
  - Round Lot: Unit of 100 shares of a particular stock
  - Odd Lot: Fewer than 100 shares of a particular stock

## Regulation of Securities Trading

- **Securities Act of 1933**
  - Promotes disclosure of information and prohibits fraud & deceit
  - Often called the "truth in securities law"
  - Requires a registration statement
- **Securities Exchange Act of 1934**
  - Created the Securities and Exchange Commission (SEC)
  - Regulates trading on all national securities exchanges
  - Requires registration statements be up to date
  - Requires brokers & securities dealers register with the SEC

## Securities and Exchange Commission

- Independent regulatory agency
- Responsible for administering the entire body of federal securities laws
- Composed of
  - 5 Commissioners
  - Appointed by the President
  - 5 year terms
  - No more than 3 members can be from the same political party

## Types of Stocks

- Common
  - Most common type of stock
  - Have voting rights
    - One vote per share owned
  - Dividend income
    - Cash Dividend
    - Stock Dividend
  - Capital Gains
  - Stock Splits
- Preferred
  - Generally no voting rights at stockholder meetings
  - Limited return
  - Receive dividends 1<sup>st</sup>
  - Stated dividend
  - More stable stock price

## Types of Preferred Stocks

- Cumulative Preferred
  - Omitted dividends will be paid before common stockholders receive any dividends
- Convertible Preferred
  - May profit through growth as well as dividends
  - When the value of common stock increases, the market value of convertible preferred also increases.

## Bonds

- Represent debt rather than ownership
- Interest is a legal obligation
- Bondholders have superior claims to stockholders
- Bond face values (generally multiples of \$1,000) must be paid at maturity date
- May be sold at a discount or premium

## Types of Bonds

- Registered
  - Bond registered in the owner's name by the issuing company
- Debenture
  - Bond backed only by the reputation of the issuing corporation
- Corporate
  - A corporation's written pledge that I will repay a specified amount of money with interest
- Convertible
  - Lower interest rate
  - Opportunity for increased investment growth
- Government
  - Treasury Bills
  - Treasury Notes
  - Treasury Bonds
  - Savings Bonds