Financial Markets

# What is a financial market?

Broadly defined, a financial market is any marketplace where buyers and sellers can participate in the trade of financial assets such as bonds, currencies, securities, derivatives and commodities.

Markets are defined by several attributes such as:

* Transparent Pricing
* Regulation
* Costs and Fees
* Market forces determining price.

These markets can be subdivided into several categories:

1. **Capital Markets –** A market where financial securities are traded, often for organizations to raise funds. While capital markets are often conflated with financial markets, capital markets are used primarily to raise funding, usually for a firm, to be used in operations, or for growth.. These markets are split into two types.
   1. **Primary Markets –** Where new stock and bond issues are sold (underwritten) to investors (Initial Public Offering)
   2. **Secondary Markets –** Where existing issuances can be exchanged without the involvement of the issuing company, (NYSE, LSE, NASDAQ etc)
2. **Money Markets –** Where high liquidity short-term maturities are traded. The money market is normally used for short-term borrowing and lending (overnight to less than 1 year).
3. **Spot Markets –** Where financial instruments such as commodities, securities or currencies are traded for immediate delivery.
4. **Derivatives Markets –** Where financial derivatives are traded. Derivates are financial instruments that base their price on the value of one or more underlying asset.
5. **Forex Markets –** Where investors exchange currencies.
6. **Cryptocurrency Markets –** Digital and decentralized markets for crypto.

**Primary Market**

When a company issues new stock or bonds for the first time, (normally via an IPO) it utilizes a primary capital market, or new issues market. The company offering the securities will hire an underwriting firm to review its … and create a prospectus outlining details such as price and quantity. These issuances are highly regulated and companies file statements with the regulating body (In the USA the SEC).

Retail investors are normally not able to buy on the primary market, as businesses will look to sell in bulk to larger investment groups.

**Markets vs. Exchanges**

While used often used interchangeably, markets are not exchanges. A market is a broader term for any location where people can connect to exchange gooods and services. An exchange is a specific type of market. It is a regulated platform for the trading of securities and other financial instruments.

**Financial Instruments**

Financial instruments are essentially contracts between parties that can generate assets to one party and liabilities or equity to another. They are tradeable assets and can be cash, a contractual right to cash or debt or another financial instrument, or ownership of an entity.

The most common instruments are:

1. **Cash Instruments**
   1. **Securities – Including** Equity securities aka. Shares, and debt securities aka. Bonds.
   2. **Loans and Deposits** – The simplest form of financial instrument, the issuance of credit to a business, that must be returned with interest.
2. **Derivatives**
   1. **Futures/Forwards –** A contract that allows two parties to buy or sell at a specific time at a specified price in the future.
   2. **Options –** A contract that gives the holder the option but not the obligation to buy (calls) or sell (puts) an asset at a predetermined price within a specific period.
   3. **Swaps –** When two parties agree to exchange cash flow streams, most commonly in the form of a rate swap where a fixed and floating rate are exchanged.
3. **Hybrids –** A Combination of two or more instrumentssuch as preferred equity, convertible bonds.
4. **FOREX Instuments –** Contracts on currencies