Infi-flux

Financial Markets

Financial markets are complex systems where participants engage in the buying and selling of financial instruments like stocks, bonds, currencies, commodities, derivatives, etc. These markets play a crucial role in the allocation of resources, determination of prices, and facilitation of economic activities. The primary functions of the financial markets are Capital allocation and price Discovery.

Different types of financial markets are:

- Stock Market (Equity Market)
- Over-the-counter Market
- Bond Market (Fixed Income Market)
- Foreign Exchange Market (Forex)
- Commodity Market
- Derivative Market
- Cryptocurrency Market
- Money Market
- Real Estate Market
- Venture Capital and Private Equity Markets
- Hedge Fund Market
- Insurance Market
- Art and collectibles Market
- Carbon Market
- Foreign Direct Investment (FDI)
- Retail Forex Market
- Options Market
- Structured Products Market
- Futures Market
- Mortgage Market
- P2P lending Market
- Factor Market
- Central Bank Market
- Collective Investment Schemes (CIS) Market
- Gold and Precious Metals Market
- Microfinance Market
- Infrastructure Investment Market
- Renewable Energy Markets
- Pharmaceutical Royalties Market
- Franchise Market
- Virtual Goods Market
- Telecom Spectrum Market
- Employee Stock Option market

Stock Markets: Basic

The stock markets are a financial marketplace where buyers and sellers trade shares of publicly held companies. It provides various companies a platform to raise capital by issuing stocks for investors to buy and sell these stocks. Prices of these stocks are influenced by various factors, including company performance, economic indicators, market sentiment, etc.

By buying shares of a company, investors become partial owners and potential benefactors from the company's success in the form of dividends or capital appreciation. Investors also face the risk of financial loss if the company performs poorly holistically.

Stock markets are operated through exchanges such as NYSE, NASDAQ, NSE, etc, where trading occurs during specific hours. Stock PRICES are determined by supply and demand dynamics.

For investors in financial markets, staying informed of trends, economic indicators, company financials, and much more is crucial for making informed investment decisions.

Stock Markets: Advance

- Primary and secondary Markets:
    - Primary Markets: IPO. This is where new securities are issued and sold for the first time. Companies' main objective is to raise capital by issuing stocks through an Initial public offering in the primary market.
    - Secondary markets: Once the securities are sold in the primary markets, they are traded in the secondary market. This is where investors buy and sell these securities among themselves. Examples are the NYSE, NASDAQ, etc.
- Stock Exchanges: Stock Exchanges are organized markets where brokers and traders buy and sell securities.
- Brokers and Brokerage firms:
    - Investors typically buy and sell stocks through brokerage firms. Brokers are intermediaries, executing trades on behalf of investors.
- Indices:
    - Indices are used for tracking the performance of a specific group of stocks. The basic intention of these instruments is to provide a snapshot of overall market health and are used as the benchmark for investors.
- Bull and Bears:
    - Terminology for market TRENDS. A Bull market is characterized by rising prices and optimism, while a bear market sees falling prices and pessimism. These trends are influenced by various variables like investor sentiment, geopolitical events, economic factors, etc.
- Dividends and Capital Gains:
    - Companies may distribute a portion of the profits to shareholders in the form of dividends. Investors also realize capital gains when they sell for a higher price than what they paid.
- Stock Prices:
    - Market forces: If more people (investors) want to buy a stock than sell it, the price goes up, and vice versa.

- Regulatory bodies:
    - Securities and financial markets are regulated by government agencies to ensure fair practices. In the US, the Securities and Exchange Commission (SEC) plays a key role in overseeing the security industry.
- Investment Strategies
    - Long-Term Investing: Holding stocks for an extended period, often with the expectation of capital appreciation. Investment ranges for many years or even decades.
    - Medium-Term Investing: Investments range from a few months to a few years.
    - Short-term Investing: Investments range from a few days to a few months.
    - Day Trading: Buying and selling stocks within the same trading day to capitalize on short-term price Fluctuations.
- Behavioural Finance: Advanced investors consider psychological Factors and behavioral aspects in understanding how emotions and cognitive errors can influence market movements.
- Research:
    - Fundamental Analysis: Examine a company's financial health, management, and competitive position.
    - Technical Analysis: Analyzing historical price Charts and Trading Volumes.
- Quantitative Analysis:
    - Data-Driven Approaches: Quants use mathematical models and statistical techniques to analyze historical data and identify potential investment opportunities.
- Risk:
    - Market Risk: The possibility of losing money due to overall market conditions. (Systematic Risk)
    - Company Risk: The risk that an individual company's stock may decline in value. (Unsystematic Risk)
- Diversification:
    - Spreading Risk: Investing in a variety of stocks and other assets to reduce the impact of poor-performing investments caused by systematic and unsystematic risk.
- Risk Management:
    - Hedging: Sophisticated investors use various strategies, like options or futures, to hedge against potential losses in their portfolios.
- Derivatives:
    - Options and Futures: These are financial Instruments derived from the value of an underlying asset, such as stocks. Options give the right (but not the obligation) to buy or sell an asset at a specific price. While the futures obligate the buyer to purchase, or the seller to sell, the asset at a predetermined future date and price.
- Dark pools:
    - Private Exchange for trading securities including stocks that operate separately from public Exchanges where trades that occur in dark pool are not displayed on the public order book. They are confidential and hidden from the broader market.
    - Dark pools are for large trades, transferring huge ownerships, and big Volumes with the intention of not causing significant price moments in the overall market.
    - Dark pools are usually used by mutual funds, pension funds, and hedge funds to execute large block trades without revealing their intentions to the broader market.

  - Benefits: Reduce Market Impact and minimize Price Slippage. Drawbacks: Lack of price Discovery, transparency concerns.
  - Dark pools are usually regulated by government agencies placing reporting requirements to ensure fair trading practices.
  - Eventual Impact: The point to focus on is if the information of the sales becomes public after the transaction is complete, it has the potential to influence change in the market sentiment and the stock price over time.
- Fluctuating Prices of Stocks: A common Occurrence and result from the dynamic interplay of various factors. Following are some of them
  - Supply and Demand
  - Market Sentiment
  - Economic Indicators
  - Company Performance
  - Global Events
  - Interest Rates
  - Market Speculation
  - Technological advances
  - Market Liquidity
  - Seasonal Trends
  - Regulatory Changes
  - Currency Fluctuations
  - Market Valuation Metrics
  - News and Social Media Impact
  - VIX Volatility Index
  - System-wide Systematic Risk
  - Earning Season
  - Investors' Future profit expectations
- Key terms/Jargon: *https://www.investopedia.com/stock-market-for-teens-7112213*
  - Ask Price: The lowest price at which a seller will sell shares
  - Bid Price: The highest Price at which a seller will sell shares
  - Bearish: Expectations that prices in the stock market will fall
  - Bullish: Expectations that prices in the stock markets will rise
  - Capital Gain: When you sell an investment for more than you initially paid
  - Dividend: A portion of company earnings distributed to some or all of its investors
  - Earnings: The money generated by a business after accounting for expenses
  - Liquidity: Converting shares of a company into ready cash without affecting its market price
  - Margin: Money borrowed from a broker to purchase an investment
  - Securities: Any financial asset that has value and can be traded
  - Ticker symbol: A shorthand way to identify a company’s shares
  - Trading Volume: The number of shares transacted during a particular period
  - Volatility: When a market or stock Experiences periods of unpredictable price movements
  - Yield: A return measure for an investment over a set period

Order types: Stock Markets Buy and Sell Order types: Investors can use various types of orders to buy or sell stocks in the stock market. These orders instruct brokers on how to execute the trade. Common types of orders are as follows:

- Market Order: A market order is an instruction to buy or sell a stock immediately at the current market price. The order is executed as soon as possible, and the investor accepts the prevailing market price.
- Limit order: A limit order is a request to buy or sell a stock at a specific price or better. For a buy limit order, it should be at or below the specified price, and for a sell limit order, it should be at or below the specified price. The order may not be immediately executed if the price doesn't reach the specified limit.
- Stop Order (Stop-Loss Order): A stop order becomes a market order when the stock reaches a specified price (the stop price). For a sell-stop order, it is placed below the current market price, while for a buy-stop order, it is placed above the current market price. The idea is to limit losses or capture gains keeping risk management in check while investing.
- Stop-limit order: This order combines features of a stop order and a limit order. It becomes a limit order when the stock reaches a specified price (stop price). Once triggered, it is then executed at the limit price or better.
- Trailing Stop order: A trailing stop order is like a stop order but adjusts automatically with the stock's price moment. If the stock price rises, the trailing stop price rises as well for a sell order, and if the stock prices fall, the trailing stop price falls for a buy order. When a trailing stop loss is triggered, it essentially becomes a regular stop loss order based on the specified percentage or amount from the highest price reached. The triggering means that the stock has experienced a certain percentage or amount of decline from its peak.
- Trailing Limit Order: A Trailing Limit Order is similar to a trailing stop order but sets a limit price instead of a market price for the triggered order.
- Trailing Stop-Limit Order: This order combines the features of a trailing stop order and a limit order, providing more control over the execution price.
- All or None (AON) Order: An AON order is a directive to execute the entire order quantity at once or not at all. This is often used for large trades to ensure that the entire order is filled rather than partially.
- Fill or kill (FOK) Order: A fill or kill order is an instruction to execute the entire order immediately or cancel it entirely. If the entire order cannot be filled, it is canceled.
- Good 'till canceled (GTC) Order: A GTC order remains active until it is either executed or canceled by the investors. It does not expire at the end of the trading day.
- Day Order: A day order is valid only for the current trading day. If the order is not executed by the end of the trading day, it is automatically canceled.
- Immediate or cancel (IOC) Order: An IOC order is a directive to execute the order immediately and, if any part of it cannot be filled, the unfilled portion is canceled.
- One-cancels-the-other (OCO) Order: An OCO order allows investors to place both a stop order and a limit order simultaneously. If one order is executed, the other is automatically canceled. It provides a way for investors to set both a profit target and a stop-loss level. If any of both orders are triggered, the other gets canceled.
- Market-on-Close (MOC) Order: An MOC order is an instruction to buy or sell a stock at the closing price. It is designed to execute as close to the market's closing price as possible.
- Limit-on-Close (LOC) order: An LOC order is like an MOC order but with a specified limit price. It instructs the brokers to execute the order at the closing price or better.

- Market-on-open (MOO) order: An MOO order is an instruction to buy or sell a stock at the opening price of the market.
- Limit-on-Open (LOO) Order: An LOO order is like an MOO order but with a specified price. It instructs the broker to execute the order at the opening price or better.
- Pegged Order: A pegged order is set to automatically adjust its limit or market price based on changes in the bid or ask price. It can be used to achieve a better execution price.
- Iceberg Order: An Iceberg order is a large order that is divided into smaller, undisclosed quantities. Only a fraction of the order is displayed to the market at a time helping to conceal the full size of the order.
- Post-Only Order: A post-only order ensures that the order is only placed if it doesn't immediately execute. This is used to avoid paying maker fees in exchanges that charge different fees for market-making and market-taking.
- Discretionary Order: A Discretionary order gives the broker some flexibility in executing the order within a specified price range. The broker can use their discretion to achieve the best possible execution.
- Conditional Order: A conditional order is an order that is only triggered and executed if certain predefined conditions are met. This can include price levels, time conditions, or other specific criteria.
- Basket Order: A basket order is a single order that contains multiple securities to be brought or sold simultaneously. This is often used for managing a portfolio with multiple positions.
- Scale Order: A scale order involves dividing a large order into smaller parts and executing them gradually over time or at predetermined price levels.
- If-then Order: An if-then Order is a conditional order where the execution of a second order is contingent upon the execution of the first order. For example, an investor might place a limit order with the condition that if it's filled, a stop order is then triggered.
- If-Done Order: Similar to an If-Then order, an If-Done order is a combination of two orders. If the first order is executed, the second order becomes active. For instance, an investor may place a market order and attach a limit order to it.
- Reserve Order: A reserve order allows investors to submit an order with a display quantity (the visible portion) and a reserve quantity (the hidden portion). This helps to manage the visibility of large orders while providing liquidity to the market
- Immediate or Post Only (IOP): An immediate or post-only order is an order that must be immediately executed or posted to the order book. If it cannot be executed immediately, it is canceled.
- Market-if-touched: An MIT order is a conditional order that becomes a market order when the stock reaches a specified triggered price. This is often used for entering a position or capturing a breakout.
- Time-Weighted Average Price(TWAP) Order: A TWAP order is designed to execute a specific quantity of shares evenly over a specified period. This helps to minimize the impact on the stock prices.
- Volume-weighted Average Price (VWAP)Order: Similar to Twap, a VWAP is designed to execute a specific quantity of shares but is weighted by the trading volume. It aims to achieve a price close to the average market price during the trading day.
- Fill at Best (FAB) order: A fill at Best order is an instruction to execute the trade at the best available price in the market. It is similar to market order but may allow for price moment.
- Guaranteed Order: A guaranteed order is a commitment from the broker to execute the order at a specified price or better, providing an additional level of certainty for investors.

- Good After Time (GAT) Order: A GAT order is an order that is valid only after a specified time. It allows investors to place orders that will be active at a future time of their choosing.
- Good This Week (GTW) Order: A GTW order is an order that is valid only for the current trading week. If the order is not executed by the end of the week, it is automatically canceled.
- Good This Month (GTM) Order: Similar to GTW, a GTM order is an order that is valid only for the current trading month. If the order is not executed by the end of the month, it is automatically canceled.
- Fill or Auction Order: A Fill or Auction order allows investors to specify that if a trade cannot be immediately executed, it should be entered into an auction market for price improvement.
- One-Triggers-a-Bracket Order: This order involves placing two orders simultaneously: a primary order and two conditional orders (profit-taking and stop-loss). If the primary order is executed, it triggers either the profit-taking or stop-loss order.
- Market-if-Bid Order: A Market-if-Bid order is similar to a Market-if-Touched order, but instead of triggering at a specified price, it triggers when the bid price reaches a certain level.
- Market-if-Offered Order: This order is similar to Market-if-Bid but triggers when the ask (offer) price reaches a specified level.
- Basket Trader Order: A Basket Trader order allows investors to simultaneously trade multiple stocks in a basket. It's particularly useful for managing diversified portfolios.
- Margin Call Order: A Margin Call order is placed by a broker to liquidate a portion or all of a client's positions to meet margin requirements.
- Panic Sell Order: A Panic Sell order is an order placed at market prices during a period of extreme market volatility. It's used when an investor wants to quickly exit positions during turbulent market conditions.
- Closing Auction Order: This order is placed specifically to participate in the closing auction of a stock. It allows investors to take advantage of the closing auction price.
- Odd Lot Order: An Odd Lot order involves trading a quantity of shares that is less than the standard trading unit (usually 100 shares). Odd lots are often subject to different trading rules.
- Round Lot Order: A Round Lot order is a trading order for a standard trading unit, usually 100 shares. It is the opposite of an Odd Lot order.
- Midpoint Cross Order: This order is executed at the midpoint between the best bid and ask prices. It aims to capture the average market price.
- Adjustable Peg Order: An Adjustable Peg order allows the trader to peg their order to a benchmark, such as the best bid or ask price, and adjust it as the benchmark changes.
- Pair Trading Order: Pair trading involves simultaneously entering buy and sell orders for two correlated securities with the expectation that the price relationship between them will converge.
- Adaptive Market Orders: Adaptive market orders dynamically adjust the order size based on current market conditions, such as volatility.
- Contingent Order: A Contingent order is placed with conditions attached, and it is only executed if those conditions are met.
- Rothberg Orders: Rothberg orders involve splitting a large order into smaller child orders that are released based on market conditions.
- Intermarket Sweep Order (ISO): An ISO is a market order that immediately crosses the bid-ask spread and is intended to sweep the best prices across multiple exchanges.
- One-Cancels-All (OCA) Order: An OCA order allows the investor to place multiple orders simultaneously and stipulates that if one order is executed, the others are canceled.
- One-Triggers-the-Other (OTO) Order: An OTO order allows an investor to place two orders simultaneously and specifies that if the first order is executed, the second order is activated.

- Scale In Order: A Scale order involves gradually entering a position by placing multiple smaller orders at different price levels.
- Scale-Out Order: A Scale-Out order involves gradually exiting a position by placing multiple smaller orders at different price levels.
- Sell Stop Limit Order: A Sell Stop Limit order is a combination of a stop order and a limit order. It becomes a limit order when the stock reaches a specified trigger price.
- Margin Intraday Square off: MIS (Margin Intraday Square-off) orders in trading refer to leveraging margin to open and close positions within the same trading day, requiring the closure of all positions before the market closes to manage intraday risk.
- Cash on carry: CNC (Cash and Carry) orders in trading refer to buying and holding securities without any intraday square-off requirement, allowing investors to retain positions beyond the current trading day.
- Stop-Loss Market Order: A Stop-Loss Market" order, in trading, refers to an instruction to buy or sell a security at the market price once the specified stop price is reached, helping investors limit potential losses in a dynamically changing market environment.

Note: The above list is incomplete and the information is gathered using GPT models and Internet Searches available in public Domain. More Information for the above document will be added shortly. Please subscribe to our Newsletter in our guide section to receive updates on documents, algorithms, games, and cutting-edge innovative products.

The reason that we stressed on types of orders that are executed in the financial/STOCK equity markets is because of the following reasons

- Risk Management
- Precision Execution and trading Hygiene
- Flexibility and development in Trading Strategies
- Reduce Emotional Decisional making through pre-defined exit conditions.
- Optimizing Entry and Exit Points
- Efficient use of capital
- Automation and Efficiency
- Cost Control
- Mitigating Market Impact
- Navigating Complex Market Situations
- Tailoring and recognizing different Investment Goals
- Position Sizing and Portfolio Management.

Most importantly: Understanding different order types aids in order flow analysis by providing insights into market sentiment, liquidity, stop-loss placement, impact analysis, strategic trading behavior, and adjustments to trading strategies, enhancing overall decision-making and risk management.

More updates on stock markets and the rest of the financial market types coming soon. Please subscribe to our newsletter under our guide section for any such updates.

Hope This Helps

Thank you

Be careful

By Infi-flux