

Factors Affecting The Market Value Of Equity

A business worth can be determined by analyzing the marketing value of its equity. Almost everywhere around the world, the investors use the equity valuation methods to determine whether the business is profitable for investment point of view or not. Today we have decided to talk about the market value of equity. We'll explain what actually the market value of equity is and how can you determine it? Further, we will discuss some factors affecting the market value of a business. So if you got some money and want to invest it for future passive income, all you need is to keep on reading this article.

What Is The Market Value Of Equity?

It is the market price of the share of the business multiplied by no outstanding shares. The multiplication outcome will be the market value of equity or business, also known as market capitalization. You can take the share price of any business you want to invest in and then multiply it with the total amount of outstanding shares to get the actual value of that particular business.

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You might be thinking why not the market value of any equity solely depends on the business performance? Well, the answer is when you are operating in a competitive market, you don't just depend on your business performance by on many factors that

have the potential to affect that performance. The market value of any equity depends on various factors, including both internal and external.

- **Market Participants:**

Take into account all the market participants that have some sort of interest in the business, including traders, analysts, and investors. The more an equity market is efficient and volatile, the more it attracts the attention of the investors, traders, and equity analysts. These participants tend to determine the intrinsic value of equity. And thus have the tendency to move the market value closer to the actual internal value of the equity.

- **New Information:**

How many times do you hear the news regarding business acquisitions, mergers, and collaborations? Does it bother you? Well, it will definitely if you have your hard-earned money invested in that particular business. The more readily the information regarding the business is available, the more promptly it affects the market value of the stock. Information regarding the expansion, acquisition, growth of the business has the direct impact of the market value of the equity.

- **Cyclical Factors:**

There is a powerful notion that businesses have to face cyclical ups and troughs throughout the life of the business. But the same is true for the equity market as well.

The equity market, like any other market, goes through the recession and boom cycles. If the market is going through any such bottom line, the market value of the equity will probably be low.

- **Market Intervention:**

The volatility and the performance of the market and, ultimately, the market value of the stock depends on the external factors as well. Taken into consideration, government interventions in the market. If the country's government abstains the foreigners from investing in the market, the market tends to be less volatile as compared to the one with no such prohibition.

- **Supply And Demand:**

The market value of equity is also influenced by supply and demand. The higher will be the demand, the higher will be the market value of equity. The stocks move according to the bid-ask system in an open market. The bid-price is the higher price the buyers are willing to pay for the equity share, and the asking price is the lowest price the sellers demand their share. When the buyers are higher, the bid-price goes higher, and ultimately, the stock gets sold on higher market value. Similarly, when there are less buyers in the market willing to purchase the equity, and the sellers are higher, the market value of the stocks gets lower.

- **Performance:**

We discussed the role of demand and supply in determining the market value of the stock or equity. But you might be pondering as to how this demand and supply work? Well, the demand for a particular equity share depends on the performance of the business. Those shares who earned back more money to the shareholders become significantly valuable. Similarly, the businesses that are insulated to the economic cycles also earn the investors praise and trust.

- **Economic Effects:**

The market value of equity gets influenced by both internal and external factors. So even if the company is performing well but the economy is experiencing a recession cycle, the stock demand most likely to dry up. When the market is experiencing an economic recession, most of the businesses tend to lose their growth pace. Keeping in mind the sluggish movement of stocks and the economy, the investors lose interest, ultimately resulting in lower demand and market value.

- **Don't Get Confused With The Market And Book Value Of The Equity:**

The market value or the capitalization value of a business is completely different from the book value of the business. The book value of any business is the value of assets stated in the financial statements of the business after deducting the total liabilities. Where the market value, as mentioned above, is the market price of the share multiplied by the total outstanding shares. But don't take the market value as the sale price of the

business. In simple terms, you can refer to market value as the size of the business, while on the other hand, the book value is the accounting value of the equity.

Now that we have explained the concept of market value, book value, and the factors affecting the market value of equity, we hope you get the understanding as to how it actually works. If you have any queries, you can ask by commenting in the comment section below.