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STOCK EXCHANGE



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INTRODUCTION

Knowing how to secure your financial well-being is one of the most important things you can do for yourself. You don't have to be a genius to do it. You just need to know a few basics, form a plan, and be ready to stick to it. That's why we are going to travel through the most important part of the capital market which is commonly called stock exchange but also bourse. What is a stock exchange? What is the purpose of a stock exchange? Those are great questions.

Chapter I: What is this?

A-Definition

A stock exchange is an organized and regulated financial market where securities (bonds, stocks, shares) are bought and sold at prices governed by the forces of demand and supply. Stock exchanges basically serve as

- Primary markets where corporations, governments, municipalities, and other incorporated bodies can raise capital by channelling savings of the investors into productive ventures;
- Secondary markets where investors can sell their securities to other investors for cash, thus reducing the risk of investment and maintaining liquidity in the system. Stock exchanges impose stringent rules, listing requirements, and statutory requirements that are binding on all listed and trading parties.

To be able to trade a security on a certain stock exchange, the security must be listed there. Usually, there is a central location at least for record keeping, but trade is increasingly less linked to a physical place, as modern markets use electronic communication networks, which give them advantages of increased speed and reduced cost of transactions. Trade on an exchange is restricted to brokers who are members of the exchange. In recent years, various other trading venues, such as electronic communication networks, alternative trading systems and "dark pools" have taken much of the trading activity away from traditional stock exchanges.

B- Difference Between Stock and Commodity Exchange

A stock exchange is where pieces of ownership in businesses (stocks) are bought and sold among investors. A commodity exchange is where goods that come from the Earth, such as corn, soybeans, cattle, oil, silver, gold, coffee, and pork bellies are bought and sold among parties, frequently not just for investment purposes but for actual use in business operations.

Since we already know enough about commodities, let's take a look of securities on which stock exchange activities are based.

C- Securities

A security is a tradable financial asset. The term commonly refers to any form of financial instrument, but its legal definition varies by jurisdiction. In some countries and languages the term "security" is commonly used in day-to-day parlance to mean any form of financial instrument, even though the underlying legal and regulatory regime may not have such a broad definition. The most common securities on the stock exchange are shares of stock and bonds.

1. Share

In financial markets, a share is a unit used as mutual funds, limited partnerships, and real estate investment trusts. The owner of shares in the company is a shareholder (or stockholder) of the corporation. A share is an indivisible unit of capital, expressing the ownership relationship between the company and the shareholder. Since we talk about shares of stock, the latter must be equally understood.

2. Stock

Stock (also capital stock) of a corporation, is all of the shares into which ownership of the corporation is divided. The shares are collectively known as "stock". A single share of the stock represents fractional ownership of the corporation in proportion to the total number of shares.

To illustrate it, let's say a company has made it through its start-up phase and has become successful. The owners wish to expand, but they're unable to do so solely through the income they earn through their operations. As a result, they can turn to the financial markets for additional financing.

One way to do this is to split the company up into shares, and then sell a portion of these shares on the open market in a process known as an initial public offering. A person who buys a stock is, therefore, buying an actual share of the company, which makes them a partial owner—however small.

Then, since each share of stock represents an ownership stake in a company, someone who invests in the stock can benefit if the company performs very well and its value increases over time. At the same time, they run the risk that the company could perform poorly and the stock price could fall (or, in the worst-case scenario, bankruptcy, disappear altogether. Very scary, indeed. That's why most of people prefer bonds that we are going to take a look at.

3. Bond

The bond is a debt security, under which the issuer owes the holders a debt and (depending on the terms of the bond) is obliged to pay them interest (the coupon) or to repay the principal at a later date, termed the maturity date. Interest is usually payable at fixed intervals (semi-annual, annual, and sometimes monthly).

A government, corporation, or other entity that needs to raise cash will borrow money in the public market and subsequently pay interest on that loan to investors. Each bond has a certain par value (say, \$1,000) and pays a coupon to investors. For instance, a \$1,000 bond with a 4% coupon would pay \$20 to the investor twice a year (\$40 annually) until it matures. Upon maturity, the investor is returned the full amount of their original principal, except for the rare occasion when a bond defaults (i.e., the issuer is unable to make the payment).

But bonds lack the powerful long-term return potential of stocks, but they are preferred by investors for whom income is a priority. Also, bonds are less risky than stocks. While their prices fluctuate in the market—sometimes quite substantially in the case of higher-risk market segments—the vast majority of bonds tend to pay back the full amount of principal at maturity, and there is much less risk of loss than there is with stocks.

Chapter II: Role of stock exchange

Stock exchanges play a vital role in the functioning of the economy by providing the backbone to a modern nation's economic infrastructure. Stock exchanges help companies raise money to expand. They also provide individuals the ability to invest in companies. Stock exchanges provide order and impose regulations for the trading of stocks. Finally, stock exchanges and all of the companies that are associated with the stock exchanges provide hundreds of thousands of jobs. Let's see few of them:

A-Business Expansion

Stock exchanges provide companies the ability to raise capital to expand their businesses. When a company needs to raise money they can sell shares of the company to the public. They accomplish this by listing their shares on a stock exchange. Investors are able to buy shares of public offerings and the money that is raised from the investors is used by the company to expand operations, buy another company or hire additional workers. All of this leads to increased economic activity which helps drive the economy.

B- Widespread Investing

Stock exchanges allow any person to invest in the greatest companies in the world. Investors, both large and small, use the stock exchanges to buy into a company's future. Investing would not be possible for the average person if there was not a centralized place to trade stocks. The ability for the average person to invest in these companies leads to increased wealth for the investors. This increased wealth then leads to additional economic activity when the investors spend their money.

C- Increased Investor Class

The stock exchanges provide order and regulation to the process of stock trading. Without the regulations and the shareholder protections that the stock exchanges provide few people would be willing to invest in stocks. Because of the oversight of the stock exchanges the average person has the confidence to invest in stocks and this leads to more people become a part of the investor class. The investors' wealth grows over time, which allows them to contribute more to the economy.

D-Direct Jobs

The stock exchanges and all of the companies that serve the stock exchanges such as brokerage firms, investment banks and financial news organizations employ hundreds of thousands of people. Most of the jobs related to stock exchanges are well paying and career orientated jobs. As a result, the employees of these firms are able to help spur economic activity.

Chapter III: Risks for Stock Investors

Investing in stocks is a risky business. There are some risks you have some control over and others that you can only guard against. Thoughtful investment selections that meet your goals and risk profile keep individual stock and bond risks at an acceptable level.

However, other risks are inherent in investing you have no control over. Most of these risks affect the market or the economy and require investors to adjust portfolios or ride out the storm.

Here are four major types of risks that investors face and some strategies, where appropriate for dealing with the problems caused by these market and economic shifts.

A-Economic Risk to Investments

One of the most obvious risks of investing is that the economy can go bad. Following the market bust in 2000 and the terrorists' attacks in 2001, the economy settled into a sour spell. A combination of factors saw the market indexes lose significant percentages. It took years to return to levels close to pre-9/11 marks, only to have the bottom fall out again in 2008-09.

For young investors, the best strategy is often to hunker down and ride out these downturns. If you can increase your position in good solid companies, these troughs are often good times to do so. Foreign stocks can be a bright spot when the domestic market is in the dumps if you do your homework. Thanks to globalization, some U.S. companies earn a majority of their profits overseas.

However, in a collapse like the 2008-09 disaster, there may be no truly safe places to turn. Older investors are in a tighter bind. If you are in or near retirement, a major downturn in stocks can be devastating if you haven't shifted significant assets to bonds or fixed-income securities.

B- Inflationary Risk

Inflation is the tax on everyone. It destroys value and creates recessions. Although we believe inflation is under our control, the cure of higher interest rates may at some point be as bad as the problem. With the massive government borrowing to fund the stimulus packages, it is only a matter of time before inflation returns.

Investors historically have retreated to "hard assets" such as real estate and precious metals, especially gold, in times of inflation. Inflation hurts investors on fixed incomes the most since it erodes the value of their income stream.

Stocks are the best protection against inflation since companies can adjust prices to the rate of inflation.

A global recession may mean stocks will struggle for a protracted amount of time before the economy is strong enough to bear higher prices. It is not a perfect solution, but that is why even retired investors should maintain some of their assets in stocks.

C- Market Value Risk

Market value risk refers to what happens when the market turns against or ignores your investment. It happens when the market goes off chasing the “next hot thing” and leaves many good, but unexciting companies behind. It also happens when the market collapses - good stocks, as well as bad stocks, suffer as investors stampede out of the market.

Some investors find this a good thing and view it as an opportunity to load up on great stocks at a time when the market isn’t bidding down the price. On the other hand, it doesn’t advance your cause to watch your investment flat-line month after month while other parts of the market are going up.

Don’t get caught with all your investments in one sector of the economy. By spreading your investments across several sectors, you have a better chance of participating in the growth of some of your stocks at any one time.

Chapter IV: Major Stock Exchanges

At one time, the United States had thriving regional stock exchanges that were major hubs for their particular part of the country. In San Francisco, for example, the Pacific Stock Exchange had an open outcry system where brokers would handle buy and sell orders for local investors who wanted to purchase or liquidate their ownership stakes.

Most of these were shut down, purchased, absorbed, or merged following the rise of the microchip, which made electronic networks much more efficient for finding liquidity so that an investor in California could just as easily sell his or her shares to someone in Zurich. Nowadays, some of the biggest stock exchanges in the world include:

A. The New York Stock Exchange

The New York Stock Exchange (NYSE, nicknamed "The Big Board") is an American stock exchange located at New York. It is by far the world's largest stock exchange by market capitalization of its listed companies at US\$30.1 trillion as of February 2018. The NYSE trading floor is located at 11 Wall Street and is composed of 21 rooms used for the facilitation of trading. It has been around since the year 1792.

B. Tokyo Stock Exchange

The Tokyo Stock Exchange, which is called Tōshō or TSE/TYO for short, is a stock exchange located in Tokyo, Japan. It is the third largest stock exchange in the world by aggregate market capitalization of its listed companies, and largest in Asia. It had 2,292 listed companies with a combined market capitalization of US\$5.67 trillion as of February 2019.

C. Shanghai Stock Exchange

The Shanghai Stock Exchange (SSE) is a stock exchange based in the city of Shanghai, China. It is one of the two stock exchanges operating independently in the People's Republic of China, the other being the Shenzhen Stock Exchange. The Shanghai Stock Exchange is the world's 4th largest stock market by market capitalization at US\$5.5 trillion as of April 2018. Unlike the Hong Kong Stock Exchange, the Shanghai Stock Exchange is still not entirely open to foreign investors and often affected by the decisions of the central government, due to capital account controls exercised by the Chinese mainland authorities.

D. Euronext

Euronext N.V. (European New Exchange Technology) is a European stock exchange with registered office in Amsterdam and corporate headquarters at La Défense in Greater Paris which operates markets in Amsterdam, Brussels, London, Lisbon, Dublin, Oslo and Paris. With around 1,500 listed companies worth €4.1 trillion in market capitalisation as of end July 2019, Euronext is the largest stock exchange in continental Europe. In addition to cash and derivatives markets, Euronext provides listing market data, market solutions, and custody and settlement services. Its total product offering includes equities, exchange-traded funds, warrants and certificates, bonds, derivatives, commodities and indices as well as a foreign exchange trading platform.

E. BRVM

The *Bourse Régionale des Valeurs Mobilières SA* ("Regional Securities Exchange SA"), or BRVM, is a regional stock exchange serving the West African Monetary Union countries such as Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal, and Togo. The exchange is located in Abidjan, Cote d'Ivoire. Market offices are maintained in each country. BRVM is a private corporation with 2,904,300,000 CFA francs in capital.

RECOMMENDATION

Stocks and bonds represent two different ways for an entity to save and raise money. Since stock may make you take risk, you may think there is no better way than invest in bonds. And it's understandable, there is nothing wrong with being a conservative or careful investor. However, if you never take any risk, it may be difficult to reach your financial goals. You may have to finance 15 to 20 years of retirement with your nest egg. Keeping it all in savings instruments may not get the job done. So do your best, make your retirement comfortable.

CONCLUSION

Stock market has its risk but can help you to achieve your financial goal. Many people invest in both stocks and bonds to diversify. Deciding on the appropriate mix of stocks and bonds in your portfolio is a function of your time horizon, tolerance for risk, and investment objectives. Do whatever you want but at least, invest in something, make your retirement more comfortable.

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