

## Module 1 Industry Overview

### 1. The Investment Industry: A Top-Down View

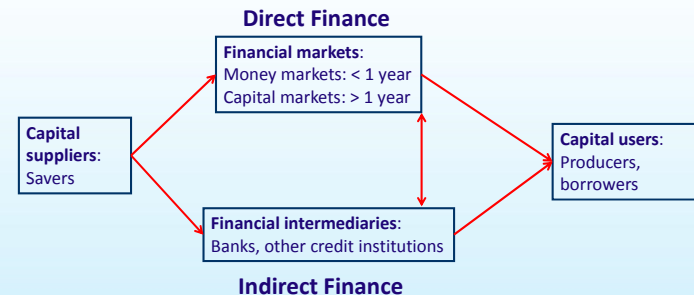
## Industry Overview

### 1. The Investment Industry: A Top-Down View

## Structure of the Investment Industry



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Investment industry refers primarily to direct finance

## How the Investment Industry Benefits the Economy

- Firms need **physical capital** to produce output
- To get physical capital, firms need to raise **financial capital**
- Providers of financial capital are **savers** and **lenders** (individuals or companies)
- Investment industry links savers and lenders with users of financial capital

## How the Investment Industry Benefits the Economy

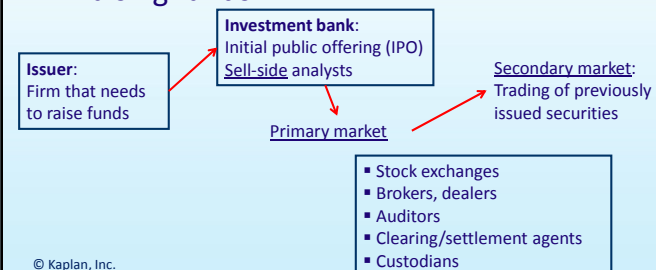
- Reduces search costs for providers and users of capital
- Helps capital flow to its highest valued uses → efficient resource allocation
- Provides information about investment values
- Creates securities to meet needs of savers and borrowers
- Provides liquidity

## How the Investment Industry Benefits Individuals

- Offers investment products to meet variety of needs
- Provides information about investment values
- Provides liquidity
- Competition keeps transactions costs low
- Transfers risk to those who are willing to bear it

## Investment Industry Participants

- Participants include those who need to raise funds and those who need to invest funds
- Raising funds:



## Investment Industry Participants

- **Institutional investors** are organizations that invest to meet a stated goal
  - Examples: Pension funds, endowments
  - May employ buy-side analysts
- **Individual investors:**
  - High net worth: May employ asset managers
  - Retail: Typically invest through banks, insurance companies, mutual funds

## Forces that Affect the Evolution of the Investment Industry

- Competition
- Computerization
- Globalization
- Regulation