

PPT

Ch. 8 Stock Markets

10/1/12

- Allow suppliers of funds to raise equity
- Secondary Stock markets most watched & reported

Common Stock

- Dividends are discretionary

slide

Cumulative Voting rights

"Vote no"

Stock Returns

Returns on a stock over 1 period (R_t) is divided into capital gains + dividend returns:

$$R_t = \frac{P_t - P_{t-1}}{P_{t-1}} + \frac{D_t}{P_{t-1}}$$

P_t = stock price at time t

D_t = dividends paid overtime $t-1$ to t

- First half of eqn. is capital gains from $t-1$ to t
- Second half of eqn is dividends pd from $t-1$ to t

$$P_{t-1}(1+r) = P_t + D_t$$

$$55.10(1+r) = 56.30 + .30$$

$$1+r = \frac{56.60}{55.10}$$

Preferred Stock

- has fixed dividends
- Participating vs. non-participating
- cumulative vs. non-cumulative

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Primary Stock Markets

Primary Mkts: corps raise money thru issuing new stock using investment banks. (IPO)

gross proceeds - net proceeds = underwriters' spread

A Syndicate is a group of invest banks working in concert to issue stock; the lead underwriter is the originating house

Seasoned offering - the sale of add'l securities by a firm whose securities are already publicly traded

* Read in the book: Prospectus

Secondary Stock Markets

- NYSE Euronext - created with a merge on April 4, 2007
- NASDAQ

NYSE Euronext (Slide)

Three Types of Transactions occur at trading posts

• Market Order - an order to transact at the best price available
 ↳ to buy: pays the ask price (lowest) ↳ to sell: pays the bid price (highest)

• a Limit order - an order to transact at a specified price

• "Ask and Bid" → "Bid-ask spread" → difference in price

• specialists transact for their own account

• "want to buy at a lower price, want to sell at a higher price"

A typical order has: a stock, Direction, Amnt., time (market order) OR price (limit order)
 (can only have 4) → always there

Need to know

Bid-ask spread

Broker: Don't buy but sell the stock for commissions

Dealer - Buy \rightarrow then held in inventory \rightarrow then sell

Broker-Dealers exist

25.02 - 1500 sh
25.01 - 200 sh

Ask 25.00 - 100 sh

Bid 24.00 100 sh
23.99 900 sh
23.98 500 sh

if you want 150 sh \rightarrow you'll get
100 for 25.00 and 50 for 25.01

Limit order of 25.03, buy, 1000 sh.

25.00 - 100 sh
25.01 - 200 sh
25.02 - 700

1000

New Example

limit to buy at 25.01, 1000 sh

25.00 for 100
25.01 for 200

300
25.01 for 700 \rightarrow New Bid

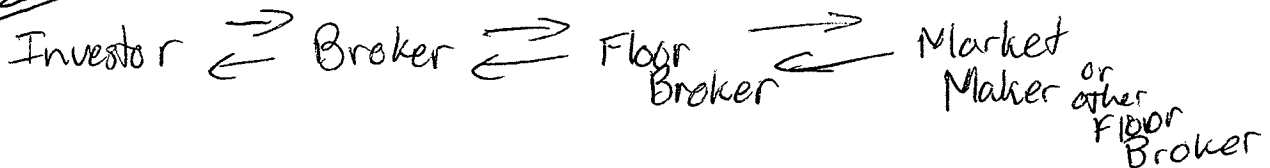
2/15th grade dance example

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Circuit Breakers

- closes market during catastrophic falls in the Dow

slide has details



Exchange Traded funds (ETFs)

- mutual funds traded on an exchange

↳ Priced off of indexes

Next Class...

- Flash Crash
- Bring laptops + WSJ