DEPARTMENT OF COMMERCE AND FINANCIAL STUDIES

BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI – 620024

MBA (Financial Management)

Course Code: FMEC5/21

Course Name: Financial Planning and Wealth Management

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Scheme of Presentation
Unit- I

- Introduction of macro-economic parameters of Indian Economy
- Nature, Functions and Types of Issues in Primary Markets
- Role and function of Secondary Markets
- Types of various Corporate Actions
- Working of equity markets
- Interpret key equity market indicators

Meaning of Financial Markets

The Financial Market in India can be understood as a place where financial products and services are bought and sold on a regular basis. It deals in the purchase and sale of different types of investments, financial services, loans, etc. Financial market in India can be divided into the money market and the capital market.

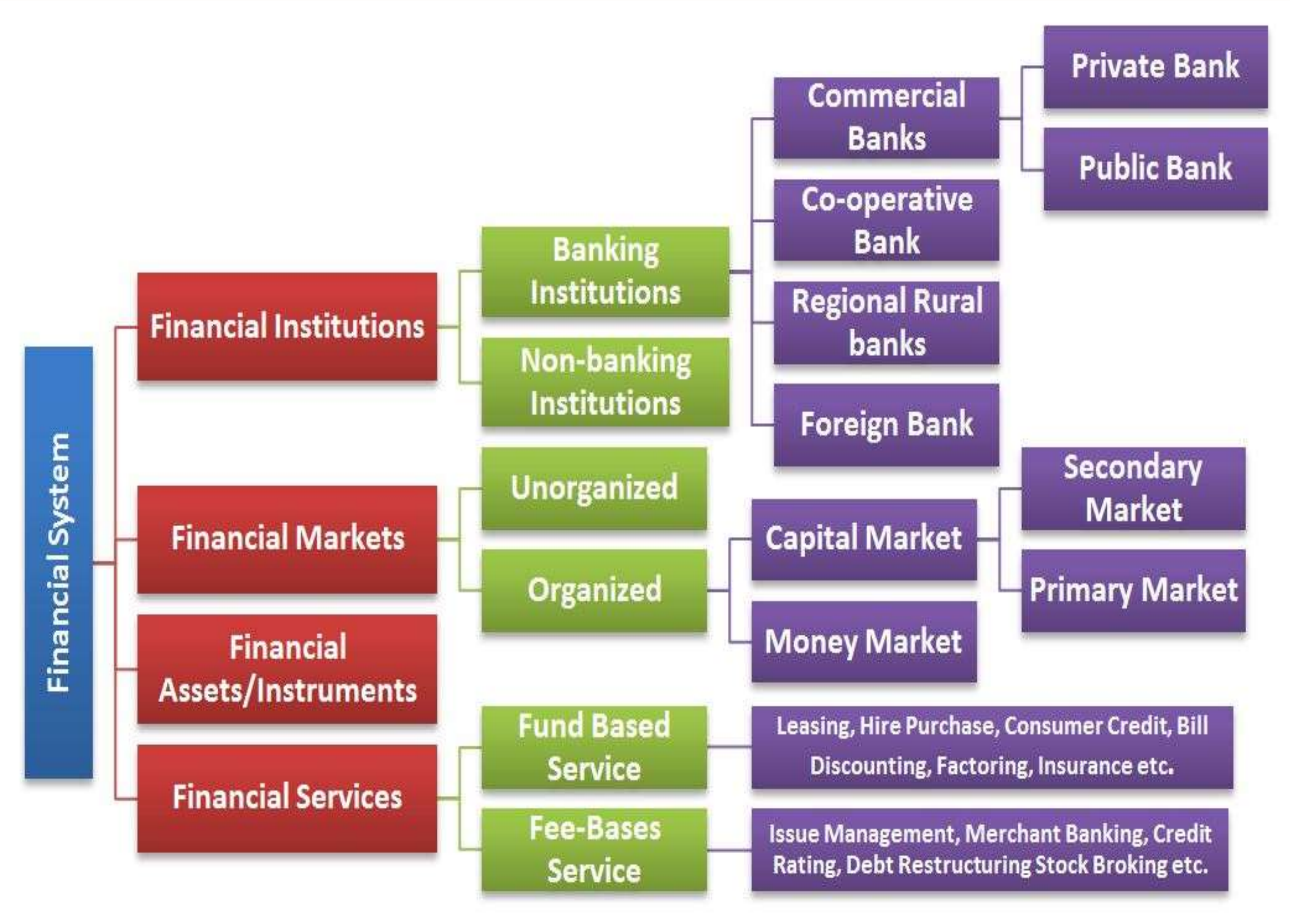
- Financial market implies any marketplace where the trading of securities takes place.
- There can be several kinds of financial markets including (but not limited to) forex, bond markets, stock, money, etc.
- Financial markets may include securities or assets that are either listed on regulated exchanges or over-the-counter (OTC).
- The economic development of the country is based on the financial markets. If the markets fail, it can result in recession and unemployment as well.

Functions of Financial Markets

- Provides a platform for the buyers and sellers for trading different types of financial products
- Financial market helps determine the price of the financial instruments that are traded in it. The price is determined through the demand and supply of the instruments.
- Helps investors by providing liquidity at the time of selling off the investments for funds
- Facilitates buyers to acquire funds when they need financial assistance
- The financial market in India influences the economic growth of the country
- It also helps mobilize funds from investors to borrowers

Regulators of the Financial Markets

1. Reserve Bank of India (RBI)
2. Securities & Exchange Board of India (SEBI)
3. Insurance Regulatory & Development Authority of India (IRDA)


Financial System
Financial Institutions
Banking Institutions
Non-banking Institutions
Commercial Banks
Private Bank
Public Bank
Co-operative Bank
Regional Rural banks
Foreign Bank
Financial Markets
Unorganized
Organized
Capital Market
Secondary Market
Primary Market
Money Market
Financial Assets/Instruments
Financial Services
Fund Based Service
Leasing, Hire Purchase, Consumer Credit, Bill Discounting, Factoring, Insurance etc.
Fee-Bases Service
Issue Management, Merchant Banking, Credit Rating, Debt Restructuring Stock Broking etc.

Macroeconomic parameters

- Interest rates. The value of a nation's currency greatly affects the health of its economy.
- Inflation.
- Fiscal policy.
- Gross domestic product (GDP)
- National income.
- Employment.
- Economic growth rate.
- Industrial production.


Signs of a strong economy
High industrial production
High employment rate
High GDP
High savings & purchasing power
Strong economy
High forex reserve
High investments
Low current account deficit
Low inflation
Low Interest rates
For an economy to be called strong, most of the above parameters should be moved in the appropriate direction. You can't assess economic health from a single parameter.
ICICI direct.com
Investments at Your Fingertips

Primary Market

The primary market, often referred to as the "new issue market," is where companies issue new securities to the public for the first time. In the case of equity, this process is known as an Initial Public Offering (IPO), while for debt instruments, it involves issuing bonds or debentures.

Functions of Primary Market

- New Issue Offer
- Underwriting Services
- Distribution of New Issue

Key Players in Primary Market

- Companies Issuing Securities
- Investors
- Investment Banks and
- Underwriters

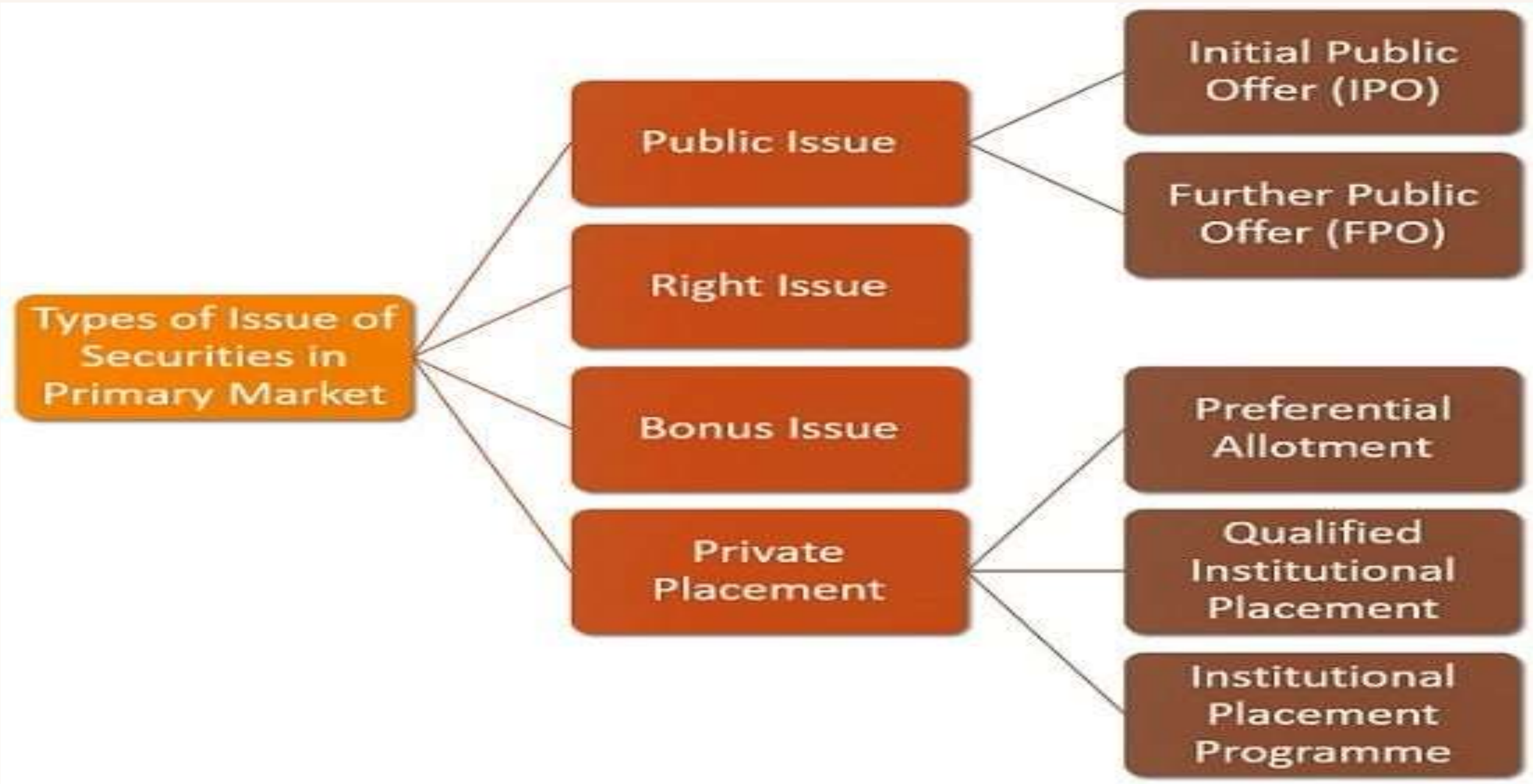
Advantages of Primary Market

- Companies can raise capital at a relatively low cost, and the securities so issued in the primary market have high liquidity because they can be sold in the secondary market almost immediately.
- Primary markets are important for the mobilisation of savings in an economy. Communal savings are mobilised to invest in other channels. Investment options are financed by this.
- Compared to the secondary market, the primary market has considerably fewer chances of price manipulation. Manipulations such as these affect the fair and free operation of the market by deflating or inflating a security’s price.

Disadvantages of Primary Market

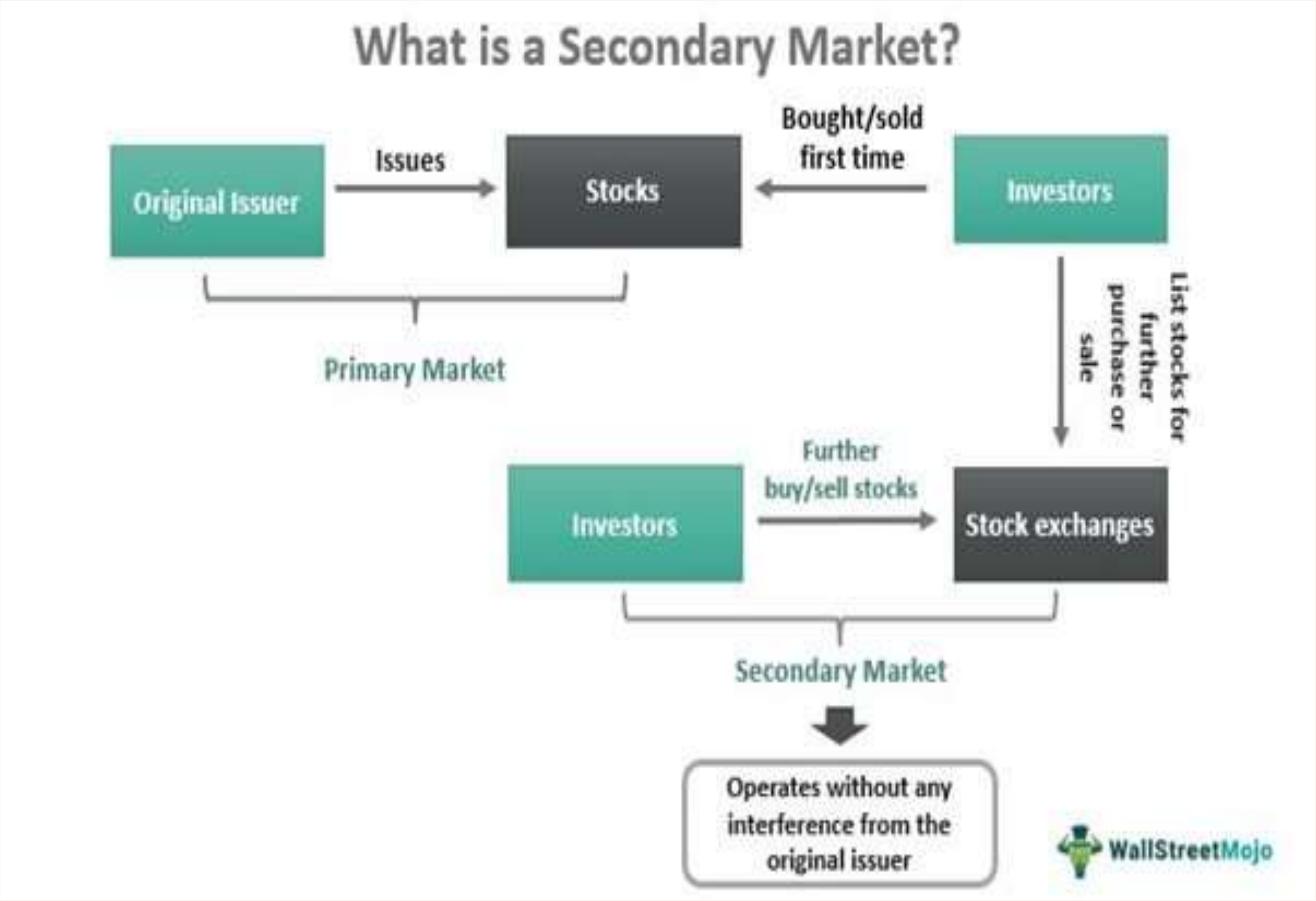
- As unlisted companies do not fall under the Securities and Exchange Board of India’s regulatory and disclosure requirements, investors may have limited access to information before investing in an IPO.
- There are varying degrees of risk with each stock, but IPO shares have no historical trading data in a primary market for analysis since the company is offering its shares for the first time through an IPO.
- Small investors may not always benefit from it. Small investors might not receive allocations if a share is oversubscribed.

Types of Issues in Primary Market



Secondary Market

- A secondary market is a platform wherein the shares of companies are traded among investors. It means that investors can freely buy and sell shares without the intervention of the issuing company. In these transactions among investors, the issuing company does not participate in income generation, and share valuation is rather based on its performance in the market. Income in this market is thus generated via the sale of the shares from one investor to another.


What is a Secondary Market?
Original Issuer
Issues
Stocks
Bought/sold first time
Investors
Primary Market
List stocks for further purchase or sale
Investors
Further buy/sell stocks
Stock exchanges
Secondary Market
Operates without any interference from the original issuer
WallStreetMojo

Importance of a Secondary Market

- The secondary market helps measure the economic condition of a country. The rise or fall in share prices indicates a boom or recession cycle in an economy.
- The secondary market provides a good mechanism for a fair valuation of a company.
- The secondary market helps drive the price of securities towards their genuine, fair market value through the basic economic forces of supply and demand.
- The secondary market promotes economic efficiency. Each sale of a security involves a seller who values the security less than the price and a buyer who values the security more than the price.
- The secondary market allows for high liquidity – stocks can be easily bought and sold for cash.

Functions of Secondary Market

- Investment
- Maintain Liquidity
- Price Discovery
- Risk Management
- Low Cost
- Capital Formation

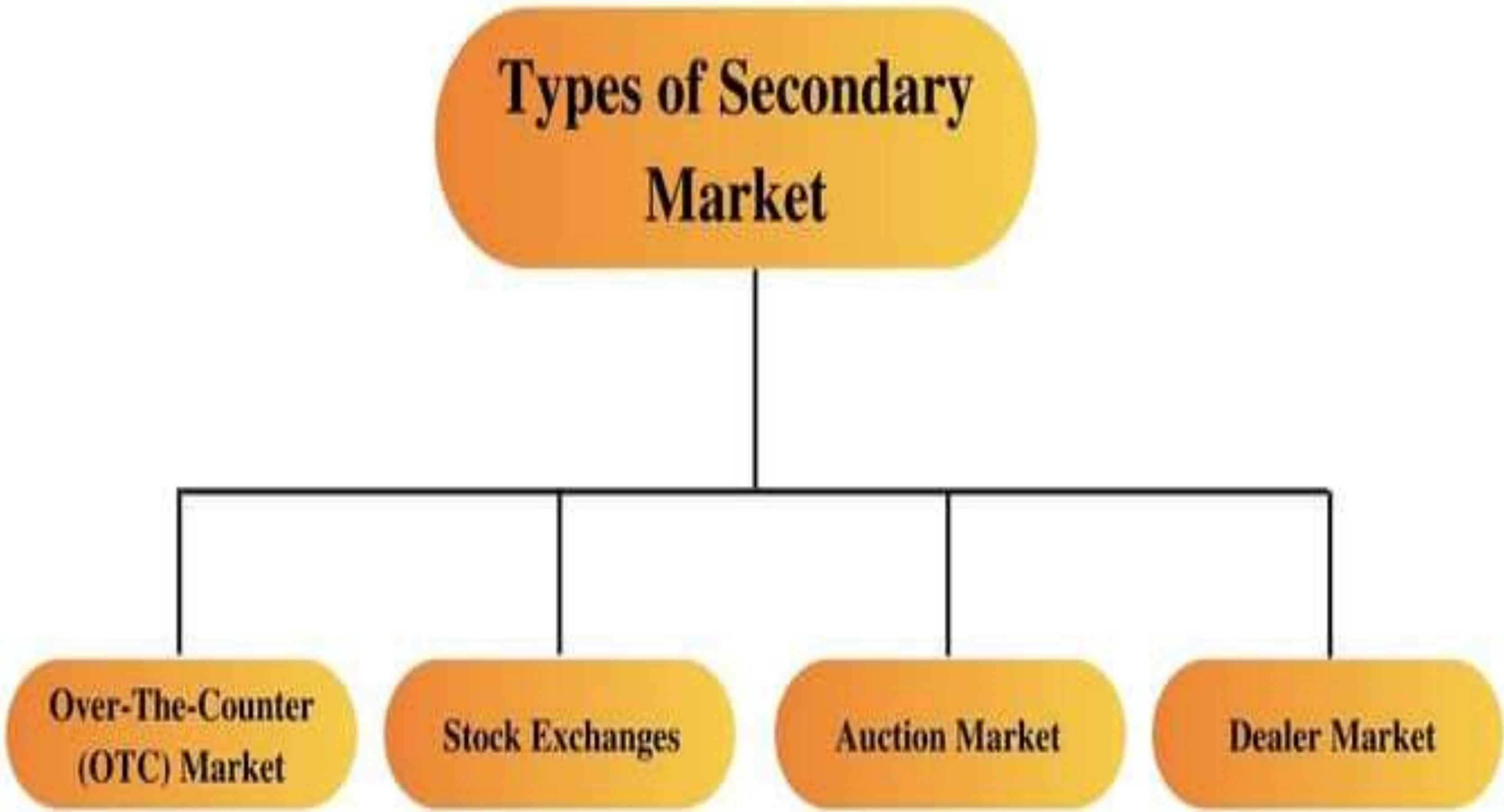

Types of Secondary Market
Over-The-Counter (OTC) Market
Stock Exchanges
Auction Market
Dealer Market

Table 40.1. The Structure of Securities Market

Advantages of Secondary Market

- Aftermarkets make it simple for investors to sell their holdings and turn them into cash when needed, thus increasing the liquidity. It offers the advantage of short-term liquidity as well as medium-term investments.
- The secondary market is an excellent method to assess a nation's overall economic health.
- Using secondary market valuation data, investors can estimate how much they have invested in their securities. As a result, it is helpful for financial activities like borrowing money from a bank or tax calculations.
- Selling their shares on a secondary market is one way for investors to receive the money they require. These valued securities, ideal for investors with limited liquidity, are always available for purchase.
- Investors can mobilize their funds more quickly and conveniently with the help of securities. Securities are a crucial investing tool that facilitates faster money mobilization without sacrificing safety or risk-taking.
- In secondary markets, the fair price of shares is maintained based on the equilibrium of supply and demand.

Limitations of secondary Market

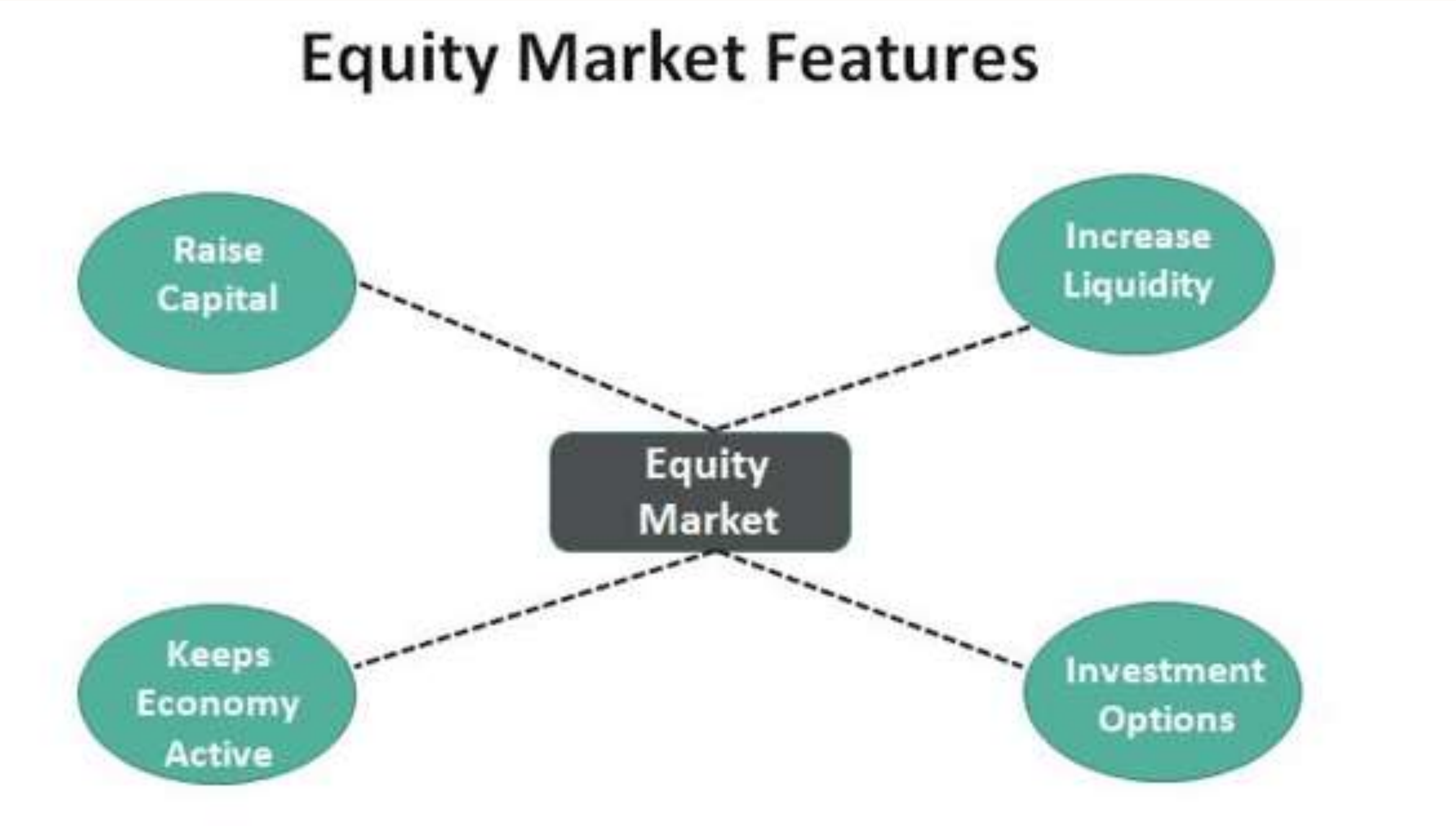
- The secondary market prices of securities are highly volatile. For investors, price changes may result in unforeseen or unexpected losses.
- In a secondary market, buying and selling can take some time. Before finalizing contracts, investors must deal with time-consuming documentation.
- The investments made in a secondary capital market are susceptible to a high degree of external risk due to the influence of numerous external factors. These might cause investors' current valuations to change in seconds drastically.
- Because brokerage commissions are taxed each time a deal is completed, investors need to exercise caution while using them. If you're not careful, commissions could potentially reduce your profit margin. Commissions can have a significant impact on investors.

Primary Market Vs. Secondary Market

Primary Market	Secondary Market
Also known as New Issue Market (NIM)	Also known as After Issue Market (AIM)
Investor gets securities directly from the company through initial public offerings (IPOs)	Investors can buy and sell securities from one another.
New securities are sold	Buy and sell existing securities
Companies directly transact with the investors	Brokers and dealers are involved
The stock price is fixed at par, premium and discount value.	Stock Prices change depending on the supply and demand of shares.
Offers one-time trading	Offers continuous trading

Equity Market

- The equity market is a place for buying and selling stocks and shares of companies. These transactions can occur either over the counter or on stock exchanges. Also known as the stock market or share market, it provides a common platform for buyers and sellers to trade equities or shares.


Equity Market Features
Raise Capital
Increase Liquidity
Equity Market
Keeps Economy Active
Investment Options

EQUITY MARKET

EQUITY MARKET is market place where shares of public companies are bought and sold. It gives a platform to the companies for raising equity share capital, and investors get a platform for making investments

TYPES

PRIMARY MARKET is a place where shares are sold directly by the company to public.

SECONDARY MARKET is market place where already listed shares are traded between traders.

Stock Exchange Market	Over the Counter Market
• Trading of Public Stock takes place here.	• Trading of Private Stock takes place here.
• Works in centralized manner.	• Works in decentralized manner.
• No involvement of Third party brokers.	• Third party brokers play a vital role here.
• More transparent & more regulated	• Less transparent & less regulated

PARTICIPANTS

- Companies
- Retail Investors
- Institutional Investors
- Financial Intermediaries
- Regulatory Authorities

PROCESSES

- Risk Management
- Information Dissemination
- Settlement & Clearing

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Thank You

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