Funding a business venture

Business

The investment banker is someone who acts as an intermediary to perform various functions for corporations and municipalities. When the corporate organizations sell their shares to raise funds, the agent responsible to find buyers for those shares is called the investment banker. The investment banker purchases the shares issued at a set price from corporations and finds buyers for reselling these shares to the investors. He provides a guarantee to the issuer that they will be entitled to a certain amount of cash for their new shares issued.

The investment banker then buys the new shares issued, pays the issuer and finds the buyers for these securities. All that an investment banker earns from underwriting is the difference between the price at which he sold new securities to the public and the price paid to the issuer for shares. Investment bankers hold prime importance in modern day’s economy. They provide guidance and advisory services to the corporation in the matters such as mergers and acquisitions. Without investment bankers, there would not be any authorization to issue or resell new securities (stocks and bonds).

b) Stock Market Stock market is a place for the trading of company’s shares and derivatives take place. These traded stocks and derivatives are those listed on a stock exchange as well as those securities which are traded privately. Stock exchanges allow the companies to trade their shares and also raise capital for themselves to fulfill their financing and expansion requirements. Since stock market is a liquid market as compared to other markets like real estate market, so this liquidity feature allows investors the convenience to quickly sell off their shares (Brain, n. d.).

c) Financial Management Financial management is the function where it manages the finances of the company to achieve the financial objectives. The key purpose of financial management function is to: • Create wealth for the owners of the business • Maintain appropriate levels of cash flows Financial management is one of the most crucial functions of any commercial organization since the future viability of the business mainly depends upon efficient financial management. d) Risk Financing Risk financing is the process of devising a strategy for dealing with the risks faced by the organization.

Risk financing also addresses the risk inherent in the business activities of an organization. Risk financing is an important element as part of the company's overall strategy since it deals with mitigating the potential negative impact on the business resulting from company's operations. Though no organization can completely eliminate or reduce the effect of risks but it an effective and comprehensive risk financing strategy can certainly help to mitigate the dangerous risks which may threaten the future of any business. e) Source of Funds

For this venture, it is suggested that the most appropriate source for raising funds seem to be selling stocks. Though, there are other options for raising funds like borrowingmoneyand licensingtechnologybut raising money by selling stock is a least expensive option than the other two options. f) Pros and Cons of Stock financing Equity option has various advantages over other methods of raising funds such as if you sell stock to equity investors you won't have to make annual interest payment that would have been payable had you borrowed money from the lending organization.

Moreover, if your business goes broke or makes losses investors won't be entitled to be repaid for their initial investment in the business (Springer, n. d.). Equity investors would be entitled for the larger share of profits because of the higher risk involved, than what would be payable to lenders as interest payments. Moreover, stock investors will have a more say in the running of the business and decision making process. g) Other Possible Option for Funding

An alternate option to stock selling could be licensing the technology to other company for the new home appliance product that would be developed. This will grant the right to the licensee company to the technology in return for a royalty payable to the inventor (honeywell. com, n. d.). This option could be an inexpensive option but it will mean that the inventor will loose the right of taking most the profits from his invention. References: Brain, M. (n. d.). How Stocks and the Stock Market Work.

Retrieved July 10, 2010, from http://money. howstuffworks. com/personal-finance/financial-planning/stock. htm honeywell. com. (n. d.). What is Technology Licensing? Retrieved July 10, 2010, from http://www. honeywell. com/sites/hipi/technology_licen. htm Springer, E. S. (n. d.). Raising Money for Your Small Business: Loans vs. Equity Investments. Retrieved July 10, 2010, from http://smallbusiness. findlaw. com/starting business/starting-business-financing/starting-business-financing-loans-equity-compared. html