Good term paper about evaluation of financial markets

Business, Company

Introduction

The Toronto Stock Exchange provides a platform where companies' stocks and other securities are traded. Listing of companies in the Canadian stock exchange makes it possible for the different stakeholders, that is, the shareholders, creditors, the government, competitors and the general public among others, to monitor performance of companies that are of interest to them. The Toronto stock exchange provides valuable information to both existing and potential investors enabling them to speculate and predict future market trends. Through this information investors are able to know which companies are best to invest in based on the expected returns.

The efficient market hypothesis

The widely known efficiency market hypothesis (EMH) have been tried in different research as regards Canadian markets. The efficient market hypothesis can be presented in three forms namely; weak form efficiency, semi-strong form efficiency and strong form efficiency. Weak form efficiency asserts that share prices fully reflect all past information which includes both market news and historical data. Such information should have no potential in the determination of the behavior of future share price. Trading prices that focus on historical data and past price patterns ought not to be able to beat the market consistently. Evaluating the weak form efficiency of the Toronto Stock Exchange in relation to the oil and gas industry, it has been argued that inefficiency in equity pricing exists in the Canadian Stock Market especially, during the market demutualization period. Should the weak form of efficiency market hypothesis hold, it will not be beneficial to make any attempt to arbitrage based on historical information.

Against the efficiency market hypothesis, however, researchers were able to show the usefulness of historical data in explaining and extrapolating the movement of future price movement. Many phenomena, including both theoretical and empirical research, were observed including the well known time anomalies that are the January effect, turn of the month effect and Monday effect. Historical data were also able to explain the existing relationship between various variables. The size effect for instance, which explains that there is a negative relationship between the stock return and market capitalization of a company's common equity. In other words, the smaller a company's size, the smaller the return.

Evaluation of companies

With reference to the Toronto Stock Exchange, we can evaluate stock market information for various companies and generally look at the causes of the changes of stock prices which consequently affect a company's performance. In perspective, we will look at the stock information relation to the Zargon Oil and Gas Ltd, Husky Energy Incorporated and Potash Corporation of Saskatchewan companies. These companies' stock prices have varied differently as will be explained. These variations represent various trends in the financial market hence a consequent explanation for these trends.

Together with its subsidiaries, Husky Energy Incorporated is an integrated energy company that operates primarily in the United States and Canada. Its operations are divided into two segments, downstream and upstream. Exploration, development and production of bitumen, crude oil, natural gas etc. are reserved for the upstream segment. Its operations are located mainly in China, Indonesia, Western Canada and East Coast of Canada. The downstream segment is concerned with refining crude oil, marketing of petroleum products.

Husky Energy Incorporated share prices lastly traded at 29. 61 Canadian dollars. This represented a decline in share value of 0. 03 Canadian dollars. This was a 0. 10 per cent fall in share prices. This represents a very small change in share prices which could possibly indicate that the share price is stable and does not vary greatly with the dynamism of the financial market. While this may prove to be a positive indication, investors can also see the share as not viable since it’s increase can be static. This share could however be favorable to risk averse investors who are more reserved about taking up investment in volatile companies.

Charting for Husky Energy Inc.

In trading on the month of September, Zargon Oil and Gas Ltd shares, based on its monthly dividends, have yielded just above the ten per cent mark. This was even with the company’s stock changing hands at as low as 7. 01 dollars. Investors have attached great importance to dividends because in the past dividends provided a significant share of the stock markets total return on investment. Generally, dividend amounts cannot always be predicted and there is a tendency for them to move along the ups and downs of each company’s profitability.

On 15 October 2013, Zargon confirmed that the cash dividend for the month of October amounted to 0. 06 Canadian dollars for every common share and would be paid on November 15, 2013 to recorded shareholders as at October 31. The company reviews its dividend policy monthly and bases this review on various factors among them; foreign exchange rates, commodity hedging program, current and future commodity prices, financial and legal requirements, current operations and any other conditions that are prevailing at such future times.

Zargon oil and gas limited had its shares trading at 7. 50 Canadian dollars. This represented a 0. 21 dollar fall from the previous share price. This represents -2. 72 percent fall. In a 52 week low of 6. 00 and a high of 8. 65 Canadian dollars, the share prices indicated a fair average, despite the fall in price. This adverse trading price could trigger a negative speculation on future prices of the company making investors sell their shares. However, the slump in share prices could be temporary as a result of the dynamic market that keeps changing. Therefore investors would have to rely on past information in making their extrapolation.

Charting for Zargon Oil & Gas Ltd.

Potash Corporation of Saskatchewan is another company listed in the Canadian stock market. The company is an integrated fertilizer and related industrial and feed products company owning and operating a potash mine in New Brunswick and five others in Saskatchewan. It declared a dividend of 0. 35 Canadian dollars. The company’s stock is currently trading at 32. 79 Canadian dollars which shows a positive change of 0. 39 Canadian dollars which represents a 1. 20 per cent increase. This change shows the good performance of the company in the financial market and this consequently reflects positively on investors. With a 52 week low of 29. 67 and a high of 45. 13 Canadian dollars, the 32. 79 dollar share price shows an acceptable and favorable share price range.

Charting for Potash Corporation of Saskatchewan Inc.

Evaluation of the bond market and the foreign currency market

The bond market is a vital market in many economies.

Canada 5-10 year bond

The foreign exchange market is also a point of interest to the government.

The 5-10 year bonds show a maximum yield over the month of September (2. 60). As at the end of the month of October, the bond yield had gone down to 2. 25.

Canada 10+ year bond

The bonds with a maturity of greater than 10 years showed better performance in terms of the yield compared to the 5-10 year bond having achieved a yield high of 3. 20.

The three month treasury bill has seen many fluctuations. It has not had a consistent yield and its deviations are major over the years. The chart below shows the performance of the three month treasury bill. Canadian 3 month treasury bill chart

In terms of foreign exchange, considering the Canadian dollar against the Japanese Yen, the Canadian has most consistently been getting stronger. Its value has generally risen higher as compared to the Japanese yen.

Trends in the Canadian financial market

There are various trends that exist in the dynamic Canadian financial market. First, there has been an increased uncertainty in the financial market which increases the pressure on the transaction and financing costs. The physical supply chain is also disrupted and this only serves to add to the costs and delays of the value chain consequently leading to a direct increase in the price of goods. Fixing of foreign exchange rates by governments so as to increase exports has led to an indirect rise in the cost of imported goods. However, there also exist forces that drive costs lower. The government's introduction of protectionist measures has improved opportunities for nationals. Often, this is followed up by ceilings on prices of essential goods and lending rates. A response most popular is recording low interest rates which act to stimulate borrowing and initiates in the economy a multiplier effect.

The Canadian financial market has also seen an increase in regulations. It is challenging for market regulators to maintain the pace of change given how dynamic the economy is. Even as markets regulate the economy it should be noted that over regulation can reduce the ability of financial institutions to extend financing for trade and thus act as a contributor to a slow trade market turnaround.

The Canadian financial market has seen the development of new trade models. The short term nature of trade has made selling down more difficult since before transactions could be said, they had to be almost complete and a lot of time was consumed while agreeing to documentation. However, there has been vast development and improvement of technology in trade paper distribution. Trade risk distribution facilitates transactions that exceed a bank's individual capacity. Clients benefit from the simplified documentation and are spared the trouble of finding solutions involving many financial institutions. Also since it reflects the demand-supply equilibrium, the distribution can deliver tighter pricing.

There are still problems facing distribution. Many companies cannot gain access to affordable liquidity because of their credit ratings. While its appeal may be limited by its modest returns, there's an equal need to educate potential investors on the various merits associated with trade paper. Some structural limitations also exist in linking investment on a portfolio basis to origination.

There have been far reaching effects attached to digitization. That it not essential has made digitization to fail however much it may be desirable. A paper based system finances working capital and covers risks, which is the primary objective of trade just as well. On a different perspective, investments that promote faster trade transaction scanning and processing, accompanied with upgraded credit and compliance support systems, could facilitate a faster trade transactions turn around.

These themes are a representative of the most significant trends in the financial market that will have to be managed over the years. The dynamic Canadian financial market calls for continuous metamorphism so as to be able to adequately adapt to the changes. These trends can be used to mould the market into a more efficient one that will see trading across the existing barriers made a reality. Stocks and securities will be easier to manage and trading will be much simpler. The financial market should be an investor friendly environment and should adequately accommodate the different companies even with the nature of their stocks.

The challenge of the financial market is to continue ensuring that even in the middle of geopolitical and macroeconomic challenges they manage to stay afloat. This will ensure growth of financial markets in spite of the eventual upturn. This will consequently demonstrate that trade, contrary to how it has been historically viewed, is not a counter cyclical business.

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