Financial markets assignment

Business

Resistance level (has a direct connection with price range according to which market participants can buy or sell securities). If market conditions are changed, a rupture between supply and demand is produced and prices are Influenced by other deferent factors. Intent ornamental stock exchanges have common features according to: 0 Designation of stock exchange components: official market from France and Germany; secondary market and -?? over the counter markets in other European countries.

In LISA – Stock exchange market, ETC market, the third and the fourth rake; In Japan – stock exchange market; Negotiation object: domestic securities are traded on official market (national securities market in Great Britain); primary securities are traded on ETC market (international securities market in Great Britain). According to their nature, stock exchange markets 1 are divided Into two categories: Stock exchanges according to their nature represent auction markets, I. E. He place of concentrating buy and sell orders and insuring the market liquidity by the stock exchange brokers – market agents, who act as assets' intermediaries. That is why the stock exchange is also called the intermediary market, or the agency market. A stock exchange is a mutual organization which provides trading facilities for stock brokers and traders to trade shares and other securities. Stock exchanges also provide facilities for the issue and redemption of securities as well as other financial instruments and capital events including the payment of income and dividends.

The over the counter markets (ETC) are negotiation markets, where the confrontation between demand and supply and market liquidity insurance is done through intention of dealers who hold the markets – market makers;

that is why these markets are called the dealer markets, as for example, the NASDAQ system from USA. Other countries present different models of stock exchanges, as combination of these two models (stock exchanges from Zurich, Vienna). Textbook 2. 1. 1 represents the main differences between o ever the counter and exchange trading.

Textbook 2. 1. 1 Difference of trading mechanism m on stock exchange and ETC markets Over the counter trading is trading that is directly between two parties. Exchange trading is riding that is done through trading facilities known as exchanges. When trading via exchanges, contracts may change hands many times before final delivery of goods. Buyers and sellers usually will never meet each other. The exchange may not even connect buyers and sellers until delivery time. An over the counter trade, however, is directly between a buyer and seller.

Over the counter trades have high counter party risk, risk that the other party will not be able to deliver their part of the contract. Exchanges, on the other hand, virtually eliminate this risk by requiring traders to post arising and by closing out positions daily. Exchanges also make rules about trading and standardize contracts. According to way of SE functioning, three types of transaction systems can exist: 1 . Call markets – market in which each transaction takes place at predetermined intervals and where all buy and sell orders are aggregated and transacted at once.

The exchange determines the market clearing price based on the number of buy and or almost clear, every time orders are filled. This is in stark contrast to the auction market, where prices are determined by buyers and sellers.

The assets’ negotiation is done through open outcry: the market is -?? cried] and stock exchange agents directly contract verbally. Some stock exchanges use the procedure of written auction. For example, small stock exchanges from Austria, Belgium, Israel. Because the call market groups transactions together, there is a substantial increase in liquidity.

Although liquidity is generally considered to be a good quality in any marketplace, sellers may lose some of the liquidity premium, which is can be substantial. 2 The function of orders’ collection, their centralized presentation on the market, estimations’ realization and contracts’ conclusion of stock exchange is exercised by the market agents. The negotiation between brokers is done under the coordination of stock exchange officer (Chief of auction), whose task is to control the establishment of a representative price, which insures the equilibrium at the respective moment between the supply and demand on the market.

It is followed the determination of the price, which will insure the highest quantity of transactions. For this, the auction’s leader announces the prices’ proposals, according to which market agents get to now buy put and bid offers; when the bid outcries exceed in volume the put outcries, the price increases, and vice-overproduced, until a rate of market equilibration is created. So, call markets create a unique price at each outcry called the official price of stock exchange and all transactions are concluded at the respective price.

For each assets, the contracts conclusion is done in a limited time interval after outcry, then another asset’ s outcry begins and its contracts conclusion

follows, and so on. So, the market functions according to successive steps, and not continuously. The main advantage of the system is that it is fixed the market equilibrium price. 2. A call market is contrasted to continuous markets (auction markets), where orders are filled as soon as a buyer/seller is found for any given order at an agreed upon price (See Textbook 2. 1. 2).

Textbook 2. 1. 2 Auction market – representative example Auction market – a market in which buyers enter competitive bids and sellers enter competitive offers at the same time. The price a stock is traded represents the highest price that a buyer is willing to pay and the lowest price that a seller is willing to sell at. Matching bids and offers are then paired together and the orders are executed. Auction markets differ from over the counter where trades are negotiated. The New York Stock Exchange (NYSE) is an example of an auction market.

For example, 4 buyers want to buy a share of EX. and make the following bids: $10. 00, 10. 02, 10. 03 and $10. 06. Conversely, there are 4 sellers that desire to sell EX. and and $10. 13. In this scenario, the individuals that made bids/offers for EX. at $10. 06 will have their orders executed. All remaining orders will not immediately be executed and the current price of EX. will then be $10. 06. 3 Continuous markets – a stock market or exchange where securities are continuously priced and traded in an auction format when the market is open.

It is a securities market in which trades may be made at any time without affecting the market price because there is a sufficiently high level of trading. In case of continuous markets, orders' collection at stock exchanges

is done through stock exchange societies, and the high market volume, assets' dissemination by investors, as well as the activity of strong financial societies insure both the liquidity, and the continuity of the market (for example, Tokyo Stock Exchange).

In most case, irrespective the ETC or stock exchange – the key role is played by the market maker. He takes the position on assets with which he performs, I. E. Becomes -?? another apart within the transaction with the clients of the SE; the seller for the buyers and the buyer for sellers. Any market maker presents two prices: the bid price (of purchasing), the lowest price a company can afford for the assets' purchase; the ask price (of selling), the highest price the company asks for assets' purchase.

Always, the ask price is higher than the bid price, the difference – the spread, representing the market maker's profit. In such a way, the transactions are not concluded at an unique price, but at prices which are always changing during the stock exchange session according to supply and demand of assets at each moment. In this case the stock exchange will not publish an official rate, but more rates: open price, maximal, minimal price and closing rate. 3. Mixed stock exchanges are transaction systems, which combine at the same time or successively, outcry or continuous procedure.

Organization of stock exchange transactions on different stock exchanges depends on: 0 Type of auction practiced by stock exchanges in different countries; Stock exchange intermediaries. There are known differ rent systems of auctions: Ordinary auctions – before the beginning of auction the sellers submit their ask (sale) offers at the initial proposed price and if

competition exists among buyers, the given one single buyer remains and securities are sold at the highest offered price. Dutch” auction – the initial seller’s price is high and the person engaged in auction organization consequently proposes lower prices, until the unique one is accepted. In this case securities are sold to the first buyer, to whom the offered price is convenient. Random auction (the unseen auction), or no-frequency auction – all buyers submit simultaneously prices and securities get into the possession to the one who offered a better price. 4 2. 2.

Mechanism of pee reforming a SPOT transaction at stock exchange SPOT transactions represent operations by means of which the seller-buyer is responsible to deliver sold securities or amount of money that represent transaction value in not more that 48 hours. The buy r is responsible to pun on account opened at brokerage company securities’ countervail, while the seller is responsible to put on count opened at brokerage company all securities proposed for selling.

An effective mechanism of SPOT transaction realization at stock exchange supposes the following stages: Initiation – the establishment of connection between the client and stock exchange (broker); the client gives an order to the broker to buy or sell securities; Conclusion – the contracts conclusion and negotiation by the SE agents; Execution of the contract – performance of obligations and obtaining the right from transaction. Schematically, the mechanism of stock exchange transaction is represented in Figure 2. 2. 1. Brokerage many Transaction department 82 AH Clearing house CLC, CA Client buyer Client seller Figure 2. 2. 1 .

The mechanism of stock exchange transaction AH – initiation of stock exchange transaction by seller/buyer AH – opening account for those two clients; AH – placing orders by clients to brokers; Bal – sending orders by brokers to brokerage companies, or brokers inside the stock exchange; 82 – price creation for the asset that is object of transaction; 83 – orders execution at stock exchange or contracts conclusion; 5 BE – notification of completion of contracts notification (transfer of rights and susceptibilities on stock exchange product); CLC – transfer of assets from the account of seller's brokerage company to the account of buyer's brokerage company; CA – notification of assets' transfer; CA – payment of assets price through debiting the buyer's account and payment 1) Initiation: In order to perform a transaction with securities at any stock exchange, the seller or the buyer should contact a stock exchange agent.

Choosing the broker, who is a stock exchange member has a lot of advantages for the client, as the member quality insures seriousness and professionalism. In case of an independent rocker, the client will contact him by phone or personally in order to give the order to buy or sell and the broker will transmit the order to inside brokers of stock exchange. 1 . The first phase of the process of transaction's initiation is opening an account by broker for his client, the account can be either cash account or queue account. But for stock exchange transactions the margin account is more appropriated, which allows an automatic credit on behalf of broker.

For each transaction, the broker charges a commission (which is added at the bid price (of purchasing) and which is taken from the ask price (of selling). In case of credits' granting within the margin account, the broker

also charges interest. 2. The second phase is the order's placing by the client, by means of personal connection or by telephone with the broker. A SE order is a firm offer (in case of selling), or a command (in case of purchasing) of a certain quantity of securities in special terms. The elements of a stock exchange order r are: the operation's direction (purchase/sale stock exchange product quantity offered/commanded type of transaction (cash, futures operation) maturity (in case of futures transactions) price (the rate).

Investors have several options when it comes to place inning an order to buy or sell securities. For example, whether you place an order directly with your broker or trade online, you can instruct your broker to buy or sell at a specified price. Or you can place an order that is good for one day only or for an extended period. 6 Understanding how different types of orders work may make a difference in whether your trade gets executed and at what price. So, depending on price specified by the client, there are: a) common orders: – Market order is an order to buy or sell a stock at the current market price. Unless he client specifies otherwise, his broker will enter the order as a market order.

The advantage of a market order is the client is almost always guaranteed his order will be executed (as long as there are willing buyers and sellers). Depending on the firm's commission structure, a market order may also be less expensive than other types of orders (for example, limit order). Always be the price that will be obtained from a real-time quote service. This may be especially true in fast- moving markets where stock prices are more volatile. When the client places an order " at the market," particularly for a large

number of shares, here is a greater chance he will receive different prices for parts of the order. To avoid buying or selling a stock at a price higher or lower than you wanted, you need to place a limit order rather than a market order.

There are two types of market orders: A buy market order – stipulates execution of the contract at the lowest possible price existent at the stock exchange by the broker from the moment when he receives such an instruction; A sell market order – should be executed at the highest possible price existent at the stock exchange from the moment the broker receives such an instruction. A limit order is an order to buy or sell a security at a specific price. A buy limit order can only be executed at the limit price or lower, and a sell limit order can only be executed at the limit price or higher. When it is placed a market order, the client can't control the price at which his order will be filled.

Example of a limit order: if you want to buy the stock off " hot" PIP that was initially offered at $9, but don't want to end up paying more than $20 for the stock, you can place a limit order to buy the stock at any price up to $20. By entering a limit order ether than a market order, you will not be caught buying the stock at $90 and then suffering immediate losses if the stock drops later in the day or the weeks ahead. The advantage of limit order is that by using a limit order the client protects himself from buying the stock at a too high price. 7 At the same time, the disadvantage of limit order: the order may never be executed because the market price may quickly surpass the limit before the client's order can be filled. Some firms may charge their

clients more for executing a limit order than a market order 2 . B) conditional orders:

A stop order is an order to buy or sell a stock once the price of the stock reaches a specified price, known as the stop price. When the specified price is reached, the stop when buying stock to limit a loss or protect a profit on short sales. The order is entered at a stop price that is always above the current market price. Sell Stop Order -?? A sell stop order helps investors to avoid further losses or to protect a profit that exists if a stock price continues to drop. A stop order to sell is always placed below the current market price. The advantage of a stop order is the client does not have to monitor how a stock is reforming on a daily basis. The disadvantage is that the stop price could be activated by a short-term fluctuation in a stock's price.

Also, once the stop price is reached, the stop order becomes a market order and the price that is received may be much different from the stop price, especially in a fast- moving market where stock prices can change rapidly. An investor can avoid the risk of a stop order not guaranteeing a specific price by placing a stop- limit order. The use of stop orders is much more frequent for stocks that trade on an exchange than in the overturned (ETC) market. In addition, some broker-dealers may not allow their clients to place a stop order on some securities or accept a stop order for ETC stocks. A stop-limit order is an order to buy or sell a stock that combines the features of a stop order and a limit order. Once the stop price is reached, the stop- limit order becomes a limit order to buy or to sell at a specified price.

The priority price means that SE agents should execute bid orders at higher prices before the ones rate data lower prices, and the ask orders – at lower prices before the ones rate data higher prices. 2) Ways of negotiation: The contracts' conclusion, or the execution of stock exchange orders is done in efferent ways on different stock exchanges, according to the system of transactions, as well as to the specific procedure of each SE, according to internal regulation. In international practice, several ways of negotiation procedures are known: Negotiation in base of order book – totaling all received orders by brokers in an order book; the order book includes orders distributed according to their degree of negotiability (bid orders at the highest price – lowest price and put orders at the lowest price – highest price).

The order book can be consulted by third stock exchange agents, or it can be closed, as only the price and volume of best quoting are listed at stock exchange. 9 Negotiation in base of a table inscription – presenting orders in such a way as all of them could be seen by stock exchange agents during the session. This procedure is done electronically, or by chalk writing of first two bid and put prices (the best ones). The negotiation is done when the third SE agent accepts a quotation listed on the table. Negotiation by trading in the ring (public announcement of orders) – each asset is distributed for trading at one of the existing rings (ex. Stock exchange of Budapest,