Market analysis essay

Market is defined as a group of consumers or organizations interested in a product.

Characteristics of a Good Market A good market is the one that is lucrative, large enough and knows income opportunity. Moreover, a good market is concentrated geographically and constitutes of people that one can easily approach. It is also comprised of people with whom one can be compatible with (MassMutual Financial Group, n. d.).

Market Liquidity Market liquidity refers to the ??? difference between the transaction price and the fundamental value??? (Brunnermeier & Pedersen, 2008). When determining whether a market is liquid, there are factors related to it, such as the price impact of a trade. A liquid market is where trades can be carried out with minimum effect on price. Market liquidity is also seen as an essential factor in market efficiency and may affect price discovery function (Muranaga & Shimizu, n. d.

, p. 2). Primary and Secondary Market for Securities The primary market is a means for the sale of new securities, a function that is useful for issuers of securities and governments and corporations alike (ShareGyan, 2007). At this level, there are a lot of transactions regarding negotiating deals with large institutional investors and investment bankers to place the bonds in the market bought by a corporation (About. com, 2009). A secondary market, on the contrary, is simply the process of buying and selling bonds (About.

com, 2009). It has an important role in the price discovery process wherein no issuers or borrowers would be disadvantaged if they pay a high price for capital. Requirements for secondary trading are efficient clearing and settlement system, hedging tools and broad-based investor pool, and availability of intermediaries (Chabchitrchaidol and Permpoon, 2002, p. 196). Initial Public Offering and Seasoned Equity Issue The initial public offering (IPO) refers to the first sale of stocks, certificates of deposits or bonds of the company in order to raise funds for the issuers (HSBC, 2009). Others define IPO as the ??? sale of equity in a company??? shares of common stock?????? (Entrepreneur.

com, 2009). Seasoned equity issue, also known as seasoned equity offering (SEO), refers to the type of stocks from a reputable company that have shares with stable price movements (Investopedia, ??? Seasoned Issue,??? 2009). Function of an Underwriter Securities underwriting is considered as a primary function in investment banking. An underwriter is tasked to appraise and measure the risk and to charge premiums with regards to the degree of risk that a company assumes through writing a certain given policy (Long & Gregg, 1965, and Kolakowski, 2009). Use of Security Market IndexesSecurity market indices are indicators in the direction and movements of prices of securities such as commodities, bonds, stocks, currencies and so on (Shilling, 1996). In addition, security market index (SMI) is a measure of the growth of value of a set of insecurities.

Oftentimes, it is a ratio which generates the base market value. The base market can be derived by dividing current value index by the index value of some base year (Spaulding, 2008). Price Weighted Index The principle behind price weighted index states that when a stock??? s price changes by a dollar, it will not change the index despite the percent change for that stock. For example, if there is a $30 stock with a $1 change, the change is the same whether the stock becomes $60.

An example of price weighted index is the Dow Jones Industrial Average (Little, 2009). Furthermore, this index is weighted by share prices. It can be constructed by adding the shares of each company and dividing by 30 (Paglia, 2009). Value Weighted Index Some consider value-weighted index as an appropriate method compared to others.

This index states that the each constituent stock will be proportional to the market share with regards to capitalization. For instance, the amount that an individual invested in each of the constituent stock is relative to the percentage of the total value of the constituent stocks (Chittagong Stock Exchange, 2006). Value-weighted index can be constructed through the summation of the market capitalization of the stocks in the index. One good thing about this index is that it easily adjusts when there are corporate actions, for instance stock splits (Financial Education, n.

d.). Bond Market Indexes An example to show why it is difficult to construct and maintain bond market indices can be seen in the following case in Thailand. One problem is the fact that Thai bond markets are subject to issues of public debt securities. Development is hindered by lack of quality issuers (Chabchitrchaidol and Permpoon, 2002, p. 190).

Moreover, there are other problems relating to supply and demand conditions, as well as on market liquidity and volatility. Specifically, the lack or few quality corporate issuers with a strong financial standing to assemble public disclosure requirements and other party ratings is also a hindrance.

Thus, the cost of funding through the issuance of bond became expensive. Given that the economic conditions today are poor, the firms??? credit quality was weakened. Furthermore most banks were apprehensive about underwriting issues, thus leading to a more complex situation.

Additionally, there were inadequate facilities to promote a secondary market for corporate bonds (Chabchitrchaidol and Permpoon, 2002, p. 194). Style Index A style index can comprise stocks that have concentrated value characteristics. Some style indices are used for measuring performance of investment styles and assessing performance of active managers (Nesbitt, 2000). Efficient Market Hypothesis (EMH) Touted as a foundation with regards to modern financial economics (Han, 2008), efficient market hypothesis (EMH) can be explained by the fact that securities prices reflect all information (Russel and Torbey, n.

d.). In other words, EMH states that at any point in time, information can be efficiently included in asset prices. Thus the old information cannot be used in predicting future price movements (Han, 2008). Weak EMH A weak form of EMH shows that past returns mirror future returns or prices.

It also consists of the use of accounting or macroeconomic variables to predict the future returns (Russel and Torbey, n. d.). This is considered weak because security prices are the most accessible information.

Many people also consider this useless because it cannot predict future price movements (Han, 2008). Semi-Strong EMH A semi-strong EMH shows that securities prices reflect only the information that is publicly available (Russel and Torbey, n. d.). In addition, the information that is available is already included in the asset prices. This information bears the company??? s economic factors, financial statements, and announcements.

A semi-strong EMH implies that the financial statements of one??? s company cannot help when it comes to predicting future price changes (Han, 2008). Strong EMH A strong EMH states that all information, even those that are private, is reflected by the securities price. There is evidence which proves that insiders gains from just trading on information that is not incorporated into prices. This means that a strong EMH does not cleave to situations where there is an ??? uneven playing field??? (Russel and Torbey, n. .).

Use of Financial Ratios than Absolute Numbers Financial ratios are analytical tools for measuring firm performance (Trimbath, 2001). Plus, ratios enable companies, investors or shareholders to effectively assess the financial status of a company and easily identify its strengths and weaknesses and trends, and also predict future changes. Additionally, ratios are easier to use than absolute numbers because ratios facilitate easier comparison of performance any time (Hill, 2009). Furthermore, ratios make it easier for companies to make investment decisions (Elmerraji, 2009). Company??? s Ratios It is an important thing to compare a company??? s ratios to similar ratios within the industry regularly to analyze any areas for improvement.

Furthermore, comparing a company??? s ratios to its past will show whether there was improvement or decline. Comparing one??? s ratios to its industry is also important to determine the financial health of the company (Hill, 2009). Top down Approach to Security Valuation There are steps in the top down approach. First, there should be an analysis of securities markets alternative economies. This is essential for companies so that it can decide on how to allot investments among and within countries.

Second, there should be an analysis of alternative industries. This analysis can aid companies in determining which ones have the possibility of prospering or doing poorly. Third, there should be an analysis of companies and stocks (Financial Education, n. d.).

Evaluation of the Economy and Industry in Stock Valuation Evaluating the economy is an important task to guide the company in determining stock valuation. Furthermore, the economy impacts industries and companies. Thus, when the economy develops, the industries and companies benefit. However, when economy declines, it will negatively impact industries. Thus a close evaluation of the conditions of the economy will aid industries and companies in making good investment decisions (Stock Charts, 2009). Leading, Coincident and Lagging Economic Indicator An economic indicator refers to those that tell how the economy is doing, such as unemployment rate and inflation rate.

Leading economic indicator is one that changes before the economy changes. An example of this would be the stock market returns. This leading economic indicator is very important for investors because this is a tool for forecasting what the economy will be like in the future. Coincident economic indicator, meanwhile, refers to an indicator that moves in time with the economy.

An example would be the gross domestic product (GDP). Lagging economic indicator, on the other hand, is an indicator which changes after the economy changes. An example of this would be unemployment rate (Moffatt, 2009). Composite Index It refers to equities and indexes that are combined so that they provide a statistical measure of market performance (Investopedia, ??? Composite Index,??? 2009).

For instance, for the National Association of Securities Dealers Automated Quotations or NASDAQ, composite index is used to determine the domestic and international based stocks that are included in the NASDAQ stock market (NASDAQ, n. d.). Diffusion Index and Relevance A diffusion index is computed by summing up the percentage of positive responses to a half of the unchanged responses.

It also determines the proportion of components. It must be determined whether a component increased, decreased or did not change so that the diffusion index can be calculated. Diffusion index is important because it points toward the factory sector trends. Furthermore, this index is already available as early as the first day of the month and does not necessarily need revision (Econoday, 2006).

Ratio Index This can be based on weekly survey of individual investors (MarketGauge, 2005). Limitations of the Cyclical Indicator Approach One limitation of this approach is that some cyclical indicators may not be as comprehensive as GDP. Cyclical indicators are also subject to bias (Haltmaier, 2001). Referenceshttp://bonds. about. com/od/corporatebonds/a/Corporatebonds. htmhttp://www. bis.

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