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The Security Markets

by Sophia

WHAT'S COVERED

In this lesson, you will learn about the different types of market transactions. Specifically, this lesson will cover:

1. Types of Stock Market Transactions

Types of stock market transactions include IPO, secondary market offerings, private placement, and stock repurchase.

- **Initial Public Offerings:** When companies issue shares of stock, it is most often done through an initial public offering (IPO) in primary markets. When they do this for the first time, a privately held company becomes a public company. They do this to raise funds for growth. When a company issues shares through its IPO, it doesn't pay the public investors back. The shares then get traded freely in the open market.
  Executing an IPO does have the advantage of the raising of new capital, but there are disadvantages as well. Among those are the direct costs associated with the IPO. Companies going through an IPO do this with the help of an investment banking firm which is the **underwriter**, who helps assess the market with the correct price for the issuance and navigate the initial sale. The other disadvantage is that the information needs to be disclosed. This could be useful to other competitors in that business industry. This information is published in the prospectus.
- **Secondary Market Offerings:** With secondary market offerings, the secondary market is not the issuance of new securities by an organization but rather an exchange among investors in the marketplace. This is where individuals execute trades. Because the number of participants in the secondary market is so great, the market stays very liquid.
- **Private Placement:** This is the initial funding of a block of securities that are not publicly offered, but rather privately, to a specific group of investors.
- **Stock Repurchase:** Also called share buyback, this is when a company buys back its own stock. Companies may take on this strategy if it feels that its stock is undervalued in the market to the point that it is of value to distribute cash for the shares to the current stockholders. Two things can happen with the shares: they can retire the shares or hold them as what is called treasury stock, which is available for reissue.

TERMS TO KNOW

Initial Public Offering (IPO)

A public offering where shares of stock in a company are sold to the general public, on a securities exchange, for the first time.

Underwriter

An entity which markets newly issued securities.

Secondary Market Offerings

A registered offering of a large block of a security that has been previously issued to the public.

Private Placement

A funding round of securities which are sold through a private offering, mostly to a small number of chosen investors.

Stock Repurchase

Reacquisition by a company of its own stock.

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2. Market Organizations

It is also important that we look at the type of organizations that the markets are themselves. There are three types of market organizations

Market Organization	Description	Example
Auction Market	In an auction market, buyers and sellers come together directly to buy and sell securities. Orders are centralized in the market, so the highest bidder and the lowest sellers can be connected.	On the floor of the New York Stock Exchange, traders physically gather around a specialist who is the auctioneer bringing buyers and sellers together.
Broker Market	Broker markets are used only for securities that have no public market. Because there is no public market, there is a need for a middleman to take on the role of a broker. This broker provides information about the buyers and sellers and earns a commission for this.	Municipal bonds are often treated in this way.
Dealer Market	Dealer markets focus on dealers who provide a service of continually bidding for securities that investors want to sell and buyers want to buy. The dealers earn their commission by collecting a spread on the difference between the price bid and the price offered.	NASDAQ and OTC markets, along with foreign exchange markets, are examples of this type of market.

TERMS TO KNOW

Auction Market

An exchange where goods and services are offered up for bid, bids are taken, and then sold to the highest bidder.

Broker Market

Broker Market

An exchange where a broker brings buyers and sellers together.

Dealer Market

An exchange where institutions are assigned to a particular security and trade out of their own account.

SUMMARY

In this lesson, we learned about different **types of stock market transactions** in the primary and secondary markets. Initial public offerings, or **IPOs in the primary market**, is where we find companies issuing new securities and raising capital. The **secondary market offerings** involve investors and speculators exchanging ownership of securities. There are also **private placements** where securities are issued to a small group of investors. Companies can also **re-purchase their own stock** to retire the shares or hold as treasury stock.

There are three main types of **market organizations**. The first is the auction market such as the New York Stock Exchange, were buyers and sellers physically get together in an open auction exchange. Broker markets are used for securities that have no public market and need a middleman to act as a broker. Dealer markets are driven for the sake of continuously bidding for securities they want to buy and sell. NASDAQ and the OTC are examples of this type of market.

Best of luck in your learning!

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