

Stock Exchange

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CONTENTS

Executive Summary	ii
1. Introduction	1
2. History	1
2.1 Early history.....	1
2.2 Establishment of formal stock exchanges.....	2
3. Role of stock exchanges	4
3.1 Raising capital for businesses	4
3.1.1 Common forms of capital raising	4
3.1.1.1 <i>Going public</i>	4
3.1.1.2 <i>Limited partnerships</i>	4
3.1.1.3 <i>Venture capital</i>	5
3.1.1.4 <i>Corporate partners</i>	5
3.2 Mobilizing savings for investment.....	5
3.3 Facilitating company growth	5
3.4 Profit sharing.....	5
3.5 Corporate governance	6
3.6 Creating investment opportunities for small investors	6
3.7 Government capital-raising for development projects.....	7
3.8 Barometer of the economy.....	7
4. Listing requirements	7
4.1 Examples of listing requirements.....	7
5. Ownership	8
6. Other types of exchanges	8
7. References	9

EXECUTIVE SUMMARY

People invest their money for generating good returns. But in this investment some kind of risk is involved. All investors have different attitudes towards risk. When it comes to investing, it is important to consider your risk profile or tolerance carefully, including how comfortable you are with the possibility of losing money, or that returns on your investments. The risk profile of investors depends upon their demographic structures or characteristics.

The project deals with the analyzing the investment pattern on the basis of risk profile of investors at Sharekhan Limited and what are the risk factors that influence the type of investment made by individuals. As we all know that every person who wants to gain better returns in future they must have to invest their money in stock market or anywhere else. This study describes the investment pattern use by different persons while doing investment in stock market keeping different risk in mind.

The main reason to choose this research is to find out the investment pattern behavior in respect of their risk bearing capacity and this research helps the company to target the investors according to their risk ability. The research process chosen by me is qualitative and quantitative research. Questionnaires in part help me a lot in finding the actual position of the market under the survey method.

A sample size of about 96 respondents which includes individual investors as well as corporate investors was taken for purpose from various parts of Delhi and NCR. After the survey was completed, the data was first stored and then analyzed on the chosen parameters. This analyzed data was later on converted into graphs. Such as pie chart, bar graphs, etc this was to make result easily comprehensible by any one going through the report. Later on, all this information was compiled in the form of a presentable and highly comprehensible report.

After analyzing the data, the problem which has been identified that most of the investors are ready to bear risk in expectation of higher returns. There is a strong relationship in investment pattern and risk bearing capacity of investors while doing investment. For analyzing the data we used chi- square and phi-Cramer V test in SPSS V 19.0 and use MS Excel 2007 for making graphs. (Akhtar, 2014)

1. INTRODUCTION

A stock exchange, securities exchange or bourse, is a facility where stock brokers and traders can buy and sell securities, such as shares of stock and bonds and other financial instruments. Stock exchanges may also provide for facilities the issue and redemption of such securities and instruments and capital events including the payment of income and dividends. Securities traded on a stock exchange include stock issued by listed companies, unit trusts, derivatives, pooled investment products and bonds. Stock exchanges often function as "continuous auction" markets with buyers and sellers consummating transactions at a central location such as the floor of the exchange. Many stock exchanges today use electronic trading, in place of the traditional floor trading.

To be able to trade a security on a certain stock exchange, the security must be listed there. Usually, there is a central location at least for record keeping, but trade is increasingly less linked to a physical place, as modern markets use electronic networks, which give them advantages of increased speed and reduced cost of transactions. Trade on an exchange is restricted to brokers who are members of the exchange. In recent years, various other trading venues, such as electronic communication networks, alternative trading systems and "dark pools" have taken much of the trading activity away from traditional stock exchanges.



The New York Stock Exchange on Wall Street in New York City, the world's largest stock exchange per total market capitalization of its listed companies

Initial public offerings of stocks and bonds to investors is done in the primary market and subsequent trading is done in the secondary market. A stock exchange is often the most important component of a stock market. Supply and demand in stock markets are driven by various factors that, as in all free markets, affect the price of stocks.

There is usually no obligation for stock to be issued through the stock exchange itself, nor must stock be subsequently traded on an exchange. Such trading may be off exchange or over-the-counter. This is the usual way that derivatives and bonds are traded. Increasingly, stock exchanges are part of a global securities market. Stock exchanges also serve an economic function in providing liquidity to shareholders in providing an efficient means of disposing of shares.

2. HISTORY

2.1 Early history

Among many other things, the Code of Hammurabi recorded interest-bearing loans.

The term bourse is derived from the 13th-century inn named "Huis ter Beurze" (center) in Bruges. From Dutch-speaking cities of the Low Countries, the term 'beurs' spread to other European states where it was corrupted into 'bourse', 'borsa', 'bolsa', 'börse', etc. In England, too, the term 'bourse' was used between 1550 and 1775, eventually giving way to the term 'royal exchange'.

The idea of debt dates back to the ancient world, as evidenced for example by ancient Mesopotamian city clay tablets recording interest-bearing loans. There is little consensus among scholars as to when corporate stock was first traded. Some see the key event as the Dutch East India Company's founding

in 1602, while others point to earlier developments. Economist Ulrike Malmendier of the University of California at Berkeley argues that a share market existed as far back as ancient Rome. One of Europe's oldest stock exchanges is the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) established in 1585 in Frankfurt am Main.

In the Roman Republic, which existed for centuries before the Empire was founded, there were *societates publicanorum*, organizations of contractors or leaseholders who performed temple-building and other services for the government. One such service was the feeding of geese on the Capitoline Hill as a reward to the birds after their honking warned of a Gallic invasion in 390 B.C. Participants in such organizations had *partes* or shares, a concept mentioned various times by the statesman and orator Cicero. In one speech, Cicero mentions "shares that had a very high price at the time." Such evidence, in Malmendier's view, suggests the instruments were tradable, with fluctuating values based on an organization's success. The *societas* declined into obscurity in the time of the emperors, as most of their services were taken over by direct agents of the state.

Tradable bonds as a commonly used type of security were a more recent innovation, spearheaded by the Italian city-states of the late medieval and early Renaissance periods. The dirty price is how the bond is quoted in most European markets, and it is the price an investor pays to acquire the bond. (Dirty Price, n.d.) (Dirty Price, n.d.)

2.2 Establishment of formal stock exchanges

The stock market — the daytime adventure serial of the well-to-do — would not be the stock market if it did not have its ups and downs. (...) And it has many other distinctive characteristics. Apart from the economic advantages and disadvantages of stock exchanges — the advantage that they provide a free flow of capital to finance industrial expansion, for instance, and the disadvantage that they provide an all too convenient way for the unlucky, the imprudent, and the gullible to lose their money — their development has created a whole pattern of social behavior, complete with customs, language, and predictable responses to given events. What is truly extraordinary is the speed with which this pattern emerged full blown following the establishment, in 1611, of the world's first important stock exchange — a roofless courtyard in Amsterdam — and the degree to which it persists (with variations, it is true) on the New York Stock Exchange in the nineteen-sixties. Present-day stock trading in the United States — a bewilderingly vast enterprise, involving millions of miles of private telegraph wires, computers that can read and copy the Manhattan Telephone Directory in three minutes, and over twenty million stockholder participants — would seem to be a far cry from a handful of seventeenth-century Dutchmen haggling in the rain. But the field marks are much the same. The first stock exchange was, inadvertently, a laboratory in which new human reactions were revealed. By the same token, the New York Stock Exchange is also a sociological test tube, forever contributing to the human species' self-understanding. The behaviour of the pioneering Dutch stock traders is ably documented in a book entitled "Confusion of Confusions," written by a plunger on the Amsterdam market named Joseph de la Vega; originally published in 1688, (...) (Brooks, 1968)

While the Italian city-states produced the first transferable government bonds, they did not develop the other ingredient necessary to produce a fully-fledged capital market: the stock market in its modern sense. In the early 1600s the Dutch East India Company (VOC) became the first company in history to issue bonds and shares of stock to the general public. As Edward Stringham (2015) notes, "companies with transferable shares date back to classical Rome, but these were usually not enduring endeavors and no considerable secondary market existed (Neal, 1997, p. 61)."[10] The VOC, formed to build up the spice trade, operated as a colonial ruler in what is now Indonesia and beyond, a purview that included conducting military operations against the wishes of the exploited natives and of competing

colonial powers. Control of the company was held tightly by its directors, with ordinary shareholders not having much influence on management or even access to the company's accounting statements.

Replica of an East Indiaman of the Dutch East India Company/United East Indies Company (VOC). The Dutch East India Company was the first corporation to be ever actually listed on a stock exchange in its modern sense. In other words, the VOC was the world's first formally listed public company.



Courtyard of the Amsterdam Stock Exchange (Beurs van Hendrick de Keyser), the foremost centre of European stock markets in the 17th century.

However, shareholders were rewarded well for their investment. The company paid an average dividend of over 16 percent per year from 1602 to 1650. Financial innovation in Amsterdam took many forms. In 1609 investors led by one Isaac Le Maire formed history's first bear syndicate, but their coordinated trading had only a modest impact in driving down share prices, which tended to remain robust throughout the 17th century. By the 1620s the company was expanding its securities issuance with the first use of corporate bonds.

Joseph de la Vega, also known as Joseph Penso de la Vega and by other variations of his name, was an Amsterdam trader from a Spanish Jewish family and a prolific writer as well as a successful businessman in 17th-

century Amsterdam. His 1688 book *Confusion of Confusions* explained the workings of the city's stock market. It was the earliest book about stock trading and inner workings of a stock market, taking the form of a dialogue between a merchant, a shareholder and a philosopher, the book described a market that was sophisticated but also prone to excesses, and de la Vega offered advice to his readers on such topics as the unpredictability of market shifts and the importance of patience in investment. "The size of a company has a great deal to do with what you can expect to get out of the stock" (Lynch, 1989, p. 109).

In England, King William III sought to modernize the kingdom's finances to pay for its wars, and thus the first government bonds were issued in 1693 and the Bank of England was set up the following year. Soon thereafter, English joint-stock companies began going public.

London's first stockbrokers, however, were barred from the old commercial center known as the Royal Exchange, reportedly because of their rude manners. Instead, the new trade was conducted from coffee houses along Exchange Alley. By 1698 a broker named John Castaing, operating out of Jonathan's Coffee House, was posting regular lists of stock and commodity prices.¹

One of history's greatest financial bubbles occurred in the next few decades. At the center of it were the South Sea Company, set up in 1711 to conduct English trade with South America, and the Mississippi Company, focused on commerce with France's Louisiana colony and touted by transplanted Scottish financier John Law, who was acting in effect as France's central banker. Investors snapped up shares in both, and whatever else was available. In 1720, at the height of the

¹ Those lists mark the beginning of the London Stock Exchange.

mania, there was even an offering of "a company for carrying out an undertaking of great advantage, but nobody to know what it is".

By the end of that same year, share prices had started collapsing, as it became clear that expectations of imminent wealth from the Americas were overblown. In London, Parliament passed the Bubble Act, which stated that only royally chartered companies could issue public shares. In Paris, Law was stripped of office and fled the country. Stock trading was more limited and subdued in subsequent decades. Yet the market survived, and by the 1790s shares were being traded in the young United States.

3. ROLE OF STOCK EXCHANGES

Stock exchanges have multiple roles in the economy. This may include the following:

3.1 Raising capital for businesses

A stock exchange provides companies with the facility to raise capital for expansion through selling shares to the investing public.

3.1.1 Common forms of capital raising

Besides the borrowing capacity provided to an individual or firm by the banking system, in the form of credit or a loan, there are four common forms of capital raising used by companies and entrepreneurs. Most of these available options might be achieved, directly or indirectly, through a stock exchange.

3.1.1.1 Going public

Capital intensive companies, particularly high tech companies, always need to raise high volumes of capital in their early stages. For this reason, the public market provided by the stock exchanges has been one of the most important funding sources for many capital intensive startups. After the 1990s and early-2000s hi-tech listed companies' boom and bust in the world's major stock exchanges, it has been much more demanding for the high-tech entrepreneur to take his/her company public, unless either the company already has products in the market and is generating sales and earnings, or the company has completed advanced promising clinical trials, earned potentially profitable patents or conducted market research which demonstrated very positive outcomes. This is quite different from the situation of the 1990s to early-2000s period, when a number of companies (particularly Internet boom and biotechnology companies) went public in the most prominent stock exchanges around the world, in the total absence of sales, earnings and any well-documented promising outcome. Anyway, every year a number of companies, including unknown highly speculative and financially unpredictable hi-tech startups, are listed for the first time in all the major stock exchanges – there are even specialized entry markets for these kind of companies or stock indexes tracking their performance (examples include the Alternext, CAC Small, SDAX, TecDAX, or most of the third market good companies).

3.1.1.2 Limited partnerships

A number of companies have also raised significant amounts of capital through R&D limited partnerships. Tax law changes that were enacted in 1987 in the United States changed the tax deductibility of investments in R&D limited partnerships. In order for a partnership to be of interest to investors today, the cash on cash return must be high enough to entice investors.

3.1.1.3 *Venture capital*

A third usual source of capital for startup companies has been venture capital. This source remains largely available today, but the maximum statistical amount that the venture company firms in aggregate will invest in any one company is not limitless (it was approximately \$15 million in 2001 for a biotechnology company).

3.1.1.4 *Corporate partners*

A fourth alternative source of cash for a private company is a corporate partner, usually an established multinational company, which provides capital for the smaller company in return for marketing rights, patent rights, or equity. Corporate partnerships have been used successfully in a large number of cases.

3.2 Mobilizing savings for investment

When people draw their savings and invest in shares (through an IPO or the issuance of new company shares of an already listed company), it usually leads to rational allocation of resources because funds, which could have been consumed, or kept in idle deposits with banks, are mobilized and redirected to help companies' management boards finance their organizations. This may promote business activity with benefits for several economic sectors such as agriculture, commerce and industry, resulting in stronger economic growth and higher productivity levels of firms.

3.3 Facilitating company growth



Börse Frankfurt (founded in 1585)

Companies view acquisitions as an opportunity to expand product lines, increase distribution channels, hedge against volatility, increase their market share, or acquire other necessary business assets. A takeover bid or a merger agreement through the stock market is one of the simplest and most common ways for a company to grow by acquisition or fusion.

3.4 Profit sharing

Both casual and professional stock investors, as large as institutional investors or as small as an ordinary middle-class family, through dividends and stock price increases that may result in capital gains, share in the wealth of profitable businesses. Unprofitable and troubled businesses may result in capital losses for shareholders.

3.5 Corporate governance

By having a wide and varied scope of owners, companies generally tend to improve management standards and efficiency to satisfy the demands of these shareholders and the more stringent rules for public corporations imposed by public stock exchanges and the government. Consequently, it is alleged that public companies (companies that are owned by shareholders who are members of the general public and trade shares on public exchanges) tend to have better management records than privately held companies (those companies where shares are not publicly traded, often owned by the company founders, their families and heirs, or otherwise by a small group of investors).

Despite this claim, some well-documented cases are known where it is alleged that there has been considerable slippage in corporate governance on the part of some public companies. The dot-com bubble in the late 1990s, and the subprime mortgage crisis in 2007–08, are classical examples of corporate mismanagement. Companies like Pets.com (2000), Enron (2001), One.Tel (2001), Sunbeam (2001), Webvan (2001), Adelphia (2002), MCI WorldCom (2002), Parmalat (2003), American International Group (2008), Bear Stearns (2008), Lehman Brothers (2008), General Motors (2009) and Satyam Computer Services (2009) were among the most widely scrutinized by the media.

To assist in corporate governance many banks and companies worldwide utilize securities identification numbers (USIN) to identify, uniquely, their stocks, bonds and other securities. Adding an ISIN code helps to distinctly identify securities and the ISIN system is used worldwide by funds, companies, and governments.

However, when poor financial, ethical or managerial records are known by the stock investors, the stock and the company tend to lose value. In the stock exchanges, shareholders of underperforming firms are often penalized by significant share price decline, and they tend as well to dismiss incompetent management teams.

3.6 Creating investment opportunities for small investors

As opposed to other businesses that require huge capital outlay, investing in shares is open to both the large and small stock investors because a person buys the number of shares they can afford. Therefore, the Stock Exchange provides the opportunity for small investors to own shares of the same companies as large investors.

0-9	SYMBOL	OPEN	HIGH	LOW	CLOSE	NET CHG	%CHG
3D SYSTEMS	DDD	19.00	19.13	17.93	18.05	-0.85	-4.50
3M	MMM	212.40	213.40	211.31	212.19	1.48	0.70
8X8	EGHT	21.42	21.48	20.43	20.51	-0.74	-3.48

3.7 Government capital-raising for development projects

Governments at various levels may decide to borrow money to finance infrastructure projects such as sewage and water treatment works or housing estates by selling another category of securities known as bonds. These bonds can be raised through the stock exchange whereby members of the public buy them, thus loaning money to the government. The issuance of such bonds can obviate, in the short term, direct taxation of citizens to finance development—though by securing such bonds with the full faith and credit of the government instead of with collateral, the government must eventually tax citizens or otherwise raise additional funds to make any regular coupon payments and refund the principal when the bonds mature.

3.8 Barometer of the economy

At the stock exchange, share prices rise and fall depending, largely, on economic forces. Share prices tend to rise or remain stable when companies and the economy in general show signs of stability and growth. An economic recession, depression, or financial crisis could eventually lead to a stock market crash. Therefore, the movement of share prices and in general of the stock indexes can be an indicator of the general trend in the economy.

4. LISTING REQUIREMENTS

Each stock exchange imposes its own listing requirements upon companies that want to be listed on that exchange. Such conditions may include minimum number of shares outstanding, minimum market capitalization, and minimum annual income.

4.1 Examples of listing requirements

The listing requirements imposed by some stock exchanges include:

New York Stock Exchange: the New York Stock Exchange (NYSE) requires a company to have issued at least a million shares of stock worth \$100 million and must have earned more than \$10 million over the last three years.

NASDAQ Stock Exchange: NASDAQ requires a company to have issued at least 1.25 million shares of stock worth at least \$70 million and must have earned more than \$11 million over the last three years.

London Stock Exchange: the main market of the London Stock Exchange requires a minimum market capitalization (£700,000), three years of audited financial statements, minimum public float (25%) and sufficient working capital for at least 12 months from the date of listing.

Bombay Stock Exchange: Bombay Stock Exchange (BSE) requires a minimum market capitalization of ₹250 million (US\$3.5 million) and minimum public float equivalent to ₹100 million (US\$1.4 million).

5. OWNERSHIP

Stock exchanges originated as mutual organizations, owned by its member stock brokers. There has been a recent trend for stock exchanges to demutualize, where the members sell their shares in an initial public offering. In this way the mutual organization becomes a corporation, with shares that are listed on a stock exchange. Examples are Australian Securities Exchange (1998), Euronext (merged with New York Stock Exchange), NASDAQ (2002), Bursa Malaysia (2004), the New York Stock Exchange (2005), Bolsas y Mercados Españoles, and the São Paulo Stock Exchange (2007). The Shenzhen and Shanghai stock exchanges can be characterized as quasi-state institutions insofar as they were created by government bodies in China and their leading personnel are directly appointed by the China Securities Regulatory Commission. Another example is Tashkent republican stock exchange (Uzbekistan) established in 1994, three years after the collapse of the Soviet Union, mainly state-owned but has a form of a public corporation (joint stock company).²

6. OTHER TYPES OF EXCHANGES

In the 19th century, exchanges were opened to trade forward contracts on commodities. Exchange traded forward contracts are called futures contracts. These commodity exchanges later started offering future contracts on other products, such as interest rates and shares, as well as options contracts. They are now generally known as futures exchanges.

² According to an Uzbek government decision (March 2012) 25 percent minus one share of Tashkent stock exchange was expected to be sold to Korea Exchange (KRX) in 2014.

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