

TRADING MARKET EBOOK



In this e-book, you will learn anything and everything you were ever curious about when it comes to the trading market. Whether you are an experienced trader or a first timer, this book will be your ultimate guide. From stocks to market capitalization, these are the terms and characteristics you must know in when trading.

What is the Market?

A market is a place where two parties can exchange good and services. These two (or more) parties are a buyer and a seller. In today's day and age, a market can have many forms. First, a market can be a retail outlet, where these parties can meet face to face. Then, a market can be virtual, too - where there is no need to make physical contact in order to make the exchange.



And finally, a market is a place where you can trade securities. On this market, parties can make a transaction of goods, services, information, or currency. This distinction is important since the size of the market is determined by the number of buyers and sellers, as well as the amount of money exchanged each year.

Types of Markets

Besides from size, different types of markets can be distinguished by other features, as well. Type of products sold, location, and duration are just some of the many factors that determine the market and help us understand the difference better.



Black Market

A black market is an illegal market, where exchange occurs without the knowledge and regulation of the government or other regulatory bodies. That's why the process on these markets is typically cash-only, thus harder to track.



When it comes to the existence of the black markets, there are no rules. They can exist in both developed and less developed economies. Usually, the black markets step in when there is a shortage of some good or services in the economy and increase their profits immensely.

Auction Market

This is the market where there are many buyers, that bid on a certain good in an attempt to top all the others. The bidder that offered the highest price, wins.



The most popular auction markets are livestock and homes, as well as websites such as eBay, where you can bid anonymously.

Financial Market

The financial market today is the basis of the capitalist society and can be both physical and virtual. Here you can trade any security, from stocks and bonds to currencies. The best-known stock markets are the New York Stock Exchange, Nasdaq, and the LSE.



Investing in the Stock Market

When it comes to this area, there are a lot of misconceptions which have taken such a swing that they are known better than the truth. Namely, there are many tips and tricks out there that will advise you to do this or that in order to survive two bear markets in one millennium, for example. These kinds of guides are not only unnecessary but can also be damaging to your portfolio.



Because of that, we will review all the characteristics that make the stock market stand out, from basic terms to more advanced features.

What is a Stock?

A stock, otherwise known as equity, is a financial instrument that represents ownership in a company or a corporation. It is a proportionate claim on the assets and earnings of the company.



In other words, it shows exactly how much of a say you can have in a company, and how great of a dividend you receive.

Types of Stocks

The basic distinction of types of stocks is between common and preferred stocks. The core difference between the two is regarding voting rights. Namely, the common stock gives you voting rights, depending on the number of the shares you own.



For example, if you are a common stockholder, you can have a say in the annual general meeting and decide on the appointment of auditors. These stocks can be further classified by the terms of those voting rights. Usually, the common shares give equal voting rights - one share, one vote. However, there are many companies that have multiple classes of shares, that give you different voting rights.

On the other hand, a preferred stock, as the name would suggest, has preference over the common shares when receiving dividends, as well as assets in the case of liquidation. Preferred stocks are generally more appealing to the investors for two main reasons - debt and equity. This means that investors are paid a fixed dividend, as well as enjoy bigger stability.

One other important question is what happens when the company is in distress? In other words, if it's struggling, it will most likely suspend the dividend to the shareholders.



In this case, the preferred stockholders have a right to receive the payments first, before the common holders can proceed with receiving theirs.

Why is Issuing Shares Important?

Just think of Google or Apple. They started out small in the garages of visionaries with big dreams and small pockets. Eventually, they grew up and grew beyond any imaginable limit. Still, here they are, stronger than ever, unshakeable by anything that could derail their glory.



Now, imagine how lucky (and smart) were those initial shareholders, that bought a stock or two when the companies were just starting out, for only a few cents per share. Issuing shares is not only a benefit for the investors, but also for the company, itself.

Namely, any company that wants to become a giant someday needs a lot of capital, first. The fastest and the easiest way to do that is to issue shares on the market. It's beneficial for both sides - while the company grows, you and your portfolio grow with it!

So, when a company is established, it usually requires a greater amount of capital. For that reason, it can sell its shares through IPO (Initial Public Offering). Most commonly known as "taking the company public", this is when the status of a company changes from private to a publicly traded. This way, its shares are available to the general public and anyone can become an investor.

Supply and Demand

For any transaction to be possible, it requires a buyer and a seller. Also, one stock usually has more buyers, so its price goes up. And in reverse - if there are not a lot (or any) sellers, the stock price will go down.



Next, we have the bid-ask spread. In other words, the bid price and the ask price of a stock. The difference between the two being - the highest price that a buyer is willing to pay (bid) for a stock and the lowest price for which the seller is offering it. When they reach an agreement between the two, the transaction can proceed.

Share Price

Since the market consists of so many investors and traders, there are just as many different opinions about what the value of a certain share should be. Also, several thousands of transactions happening on the market each day.



That makes it even more difficult to determine the exact value, as well as if it will go up or down. That's why it is challenging to choose the right time to act on the market but, hey, that's the exciting part, too.

Market Capitalization

Market capitalization and the sector are two of the most common ways of classifying stocks. Market capitalization is the total market value of the company's outstanding shares.



Depending on the definition, companies can be divided into 3 groups. Large-cap companies are the ones that have a capitalization of at least \$10 billion, while mid-cap go between \$2 and \$10 billion. Finally, the small-cap companies are those between \$300 million and \$2 billion market capitalization.

The Sector

When it comes to stock classification by the sector, it is based on the Global Industry Classification Standard (GICS). This tool was developed way back in 1999, and the fact that it is still used is the best proof of its efficiency.



It divides the market into the 11 following sectors:

- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples
- Health Care
- Financials
- Information Technology
- Communication Services
- Utilities
- Real Estate.

This classification is proven to be quite helpful for investors when they are trying to determine what is the best way to build their portfolio.

Stock Exchange Listing - Pros and Cons

There are many benefits to the stock exchange listing. Companies around the world are aiming to get on the New York Stock Exchange because of the many advantages, such as:

- liquidity for all the shareholders
- ability to raise additional funds by issuing more shares



- setting up stock options to attract talented employees
- greater visibility on the market.

On the other hand, there are some disadvantages of being listed on the stock exchange. Those are:



- bigger costs for the company, such as listing fees, compliance and reporting costs
- tight regulations
- focus on the short-term goals, rather than long ones.

Whichever way we put it, the numbers still show that currently, the number of publicly traded companies in the US is decreasing. Still, many startups are choosing to get listed on the stock exchange as the best way to develop and grow.