Secondary Market

Topics to be Discussed

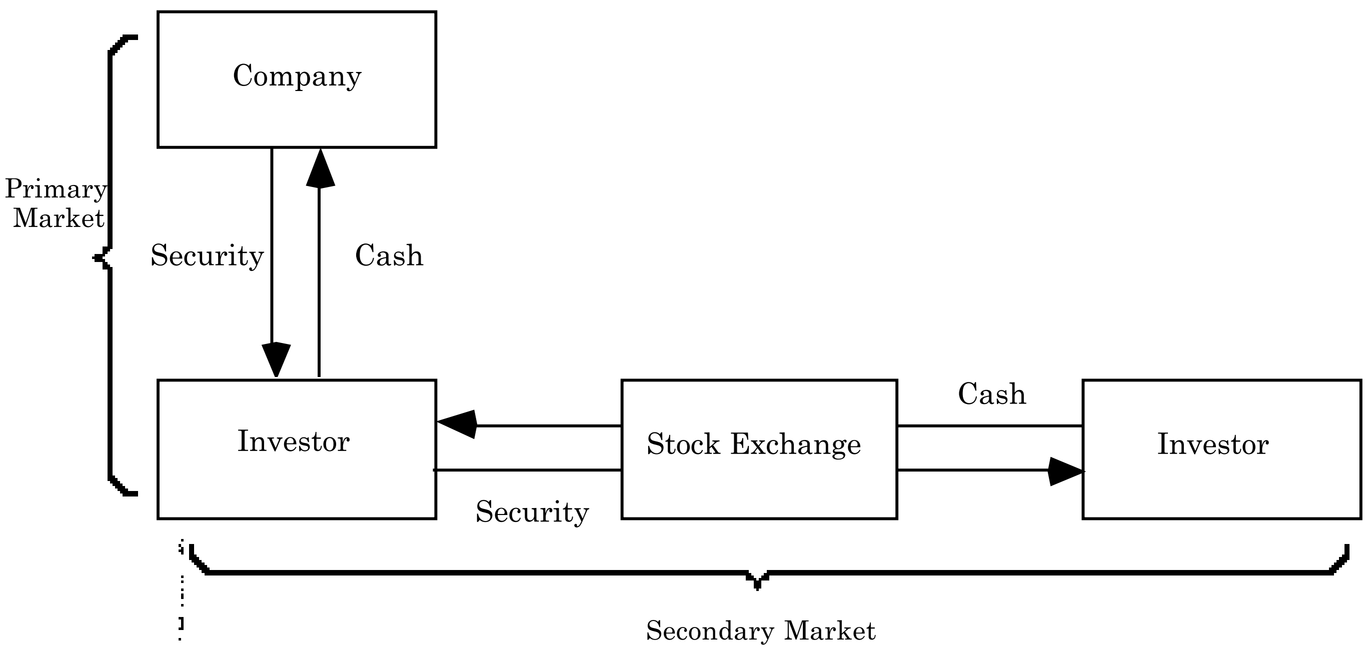
Secondary Investment Market
The Stock Exchanges
Value of Listing

Secondary Investment Market

Primary market for corporate issues is one in which new issues (bonds, preferred stock, common stock) are sold by companies to acquire new cash.

Secondary market for corporate issues involves trading securities that have previously been sold to the public. The securities are traded between current and future owners.

- ☛ proceeds of sale of securities goes to prior owner, not company



The Stock Exchanges

The New York Stock Exchange (The Big Board)

- in the late 18th century trading in various securities (U.S. Government, banks, and insurance companies) was carried on in various coffee houses, auction rooms and offices.
  - trading mostly unorganized
  - reluctance to trade because of lack of liquidity
- in 1792, group of merchants and auctioneers decided to meet daily under an old buttonwood tree on Wall Street
- in 1817, formal constitution of The New York Stock and Exchange Board
- the market was a <u>call</u> market
- other important dates
  - 1863 - the name New York Stock Exchange adopted
  - 1871 - call market gave way to continuous market
- of all corporations in business today, less than 1% are listed on the New York Stock Exchange

American Stock Exchange

- in 1850's, the stock exchange, known as the New York Curb Exchange, was founded
- 1921 - the exchange moved indoors
- 1953 - the name American Stock Exchange was adopted
- listing requirements not as strict as those of the New York Stock Exchange

NASDAQ (National Association of Security Dealers Automated Quotation system)

consists of dealers who elect to make a market (agree to buy and sell) in a given security or group of securities

- typically market making firm specializes in 50+ issues
- typically at least 8 brokerage houses per stock
  - stock of smaller companies may have as few as 4 market makers

dealer is prepared to

- buy for its own account at its "bid" price
- sell from its own account at its "asked" price
- difference between bid and asked is "spread"

there is no market in a sense of a given place to meet

- the over-the-counter market is a complex network of trading rooms all over the country

prior to formation of National Association of Security Dealers (NASD) in 1939, OTC activity was virtually unregulated

the NASD provided improved OTC quotation system with the introduction of its Automated Quotation system (NASDAQ)

Regional exchanges

- significant regional exchanges
  - Chicago
  - Pacific Stock Exchange (San Francisco/Los Angeles) (acauired by NYSE in 2006)
  - Philadelphia Stock Exchange (Philadelphia/Pittsburgh) (acquired by NASDAQ in 2007)
  - Boston Stock Exchange (acquired by NASDAQ in 2007)
  - National Stock Exchange (formerly Cincinnati Stock Exchange)
- main reasons for regional exchanges
  - they provide trading facilities for securities of local companies
  - local brokers, who are not members of a national exchange, can trade securities traded on national exchanges

Value of Listing

Advantages for Corporation

- listing tends to make a security more marketable
- listing tends to create lower financing costs when additional capital is raised in the future
- a company obtains publicity and advertising when securities are listed
- a company can obtain more stockholders, creating more customers and aiding future financing

Disadvantages for Corporation

- expense of listing exceeds the benefits received
- managements dislike required disclosure of financial affairs and other information imposed on listed companies
- managements dislike the SEC regulation of “insiders” in the securities transactions