FIN 366: INVESTMENTS
BRIEFING

Chapter 3: Securities Markets

Primary markets are where firms issue securities for the first time to investors. **Secondary markets** are where securities exchange among investors. **Private** firms are owned by up to 200 shareholders while **public** firms are owned by many shareholders and have shares trade on exchanges. An **IPO** is the process of a firm issuing its shares for the first time to investors in the primary market. **Underwriters** advise the firm throughout the IPO process. A **firm commitment** occurs when underwriters purchase the IPO shares from the firm and resell to the public. **Special Purpose Acquisition Companies (SPACs)** are publicly traded companies that take private firms public by acquiring them in a reverse merger. The **NYSE** is traditionally an **auction market** where **floor brokers** interact with **specialists** who maintain a record of buy and sell orders for certain stocks. The **NASDAQ** is a computer-networked **dealer market** where dealers post bid and ask prices for securities from their inventory. The **Cboe** is an **electronic computer network** where buyers and sellers of securities are matched electronically. Transacting securities will result in **trading costs** that may be implicit or explicit, even if trading commissions are not present. **Buying on margin** is a trading strategy that entails borrowing money from a broker to invest, which can result in higher upside potential but may also magnify losses. The **margin** is the portion in an investor's account that is contributed by the investor, while the remaining amount is borrowed from the broker. The **initial margin** is the amount the investor must contribute to the account at the beginning. If the stock purchased falls in value, the value of their brokerage account might fall below a **maintenance margin**, and the investor will need to contribute more money to keep the amount of their borrowings in line. **Short sales** entail selling securities that you do not own if you think the share price will fall. You are **bearish** if you think share prices will fall and are **bullish** if you think share prices will rise. The **Securities and Exchange Commission (SEC)** and **Financial Industry Regulatory Authority (FINRA)** are government and self-regulating agencies, respectively.