

The Stock Exchange market



In the Stock Exchange, companies can sell bonds and shares (or stocks).

Entrepreneurs vs Shareholders

Between 1975 and 1995, financial flows increased from 5% to 180% of France's GDP.

Stocks and bonds

- A stock certifies the ownership of a part of a company
- The price of a stock is influenced by expectations of future dividends and capital gain.
- A bond is a loan.

INDEX to analyse the stock market

Dow Jones Industrial Average An index based on the stock prices of 30 actively traded large companies. The oldest and most widely followed index of stock market performance

NASDAQ Composite An index based on the stock prices of over 5,000 companies traded on the NASDAQ Stock Market. The NASDAQ market takes its name from the National Association of Securities Dealers Automated Quotation System.

Standard and Poor's 500 (S&P 500) An index based on the stock prices of 500 of the largest firms by market value.

The CAC 40 (For Compagnie des Agents de Change) is a benchmark French stock market index.

CAC 40



The biggest capital market in the world

A primary market, the new issue market (NIM)

A secondary market, also called aftermarket

Some of the bonds are listed in exchanges but most of them are dealt over-the-counter (OTC)*

*de gré à gré

Global financial assets

Jul 30th 2011 | from the print edition

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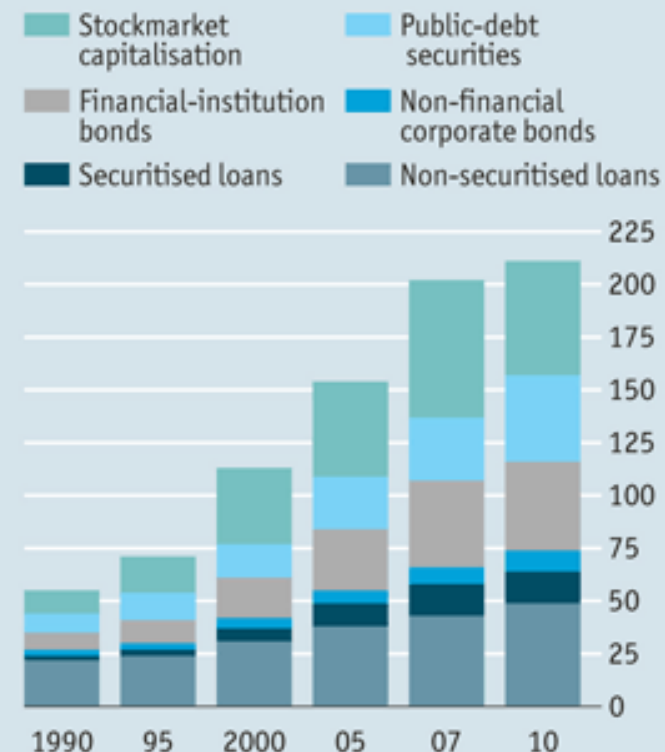
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The stock of all debt and equity across the globe increased by 5% in 2010 to \$212 trillion, surpassing its previous peak in 2007, according to McKinsey Global Institute. Half of the growth came from rising stockmarkets, which account for a quarter of all financial assets. Global debt increased by 3% to \$158 trillion, reaching 266% of GDP. On-balance-sheet lending in China added \$1.2 trillion to the debt stock, and its share of non-securitised loans now exceeds America's or Japan's. China also led the way in initial public offerings, with 45% of the total. Further fiscal deterioration in the rich world meant that global government debt increased to \$41 trillion, equivalent to 69% of GDP among the 79 countries covered in the report.

Global financial assets

Amounts outstanding*, \$trn



Source: McKinsey Global Institute

*Among 79 countries

NYSE Euronext, United States ~ \$12.4 trillion

The 15 Largest Stock Markets and Exchanges

Tokyo Stock Exchange, Japan ~ \$3.5 trillion

NASDAQ OMX, United States ~ \$3.5 trillion

NYSE Euronext, Europe ~ \$2.8 trillion

London Stock Exchange, United Kingdom ~ \$2.8 trillion

Shanghai Stock Exchange, China ~ \$2.6 trillion

Hong Kong Exchanges, China/Hong Kong ~ \$2.3 trillion

TSX/Toronto Stock Exchange, Canada ~ \$1.8 trillion

Bombay Stock Exchange, India ~ \$1.4 trillion

BM&F Bovespa, Brazil ~ \$1.3 trillion

Australian Stock Exchange, Australia ~ \$1.3 trillion

Deutsche Borse, Germany ~ \$1.3 trillion

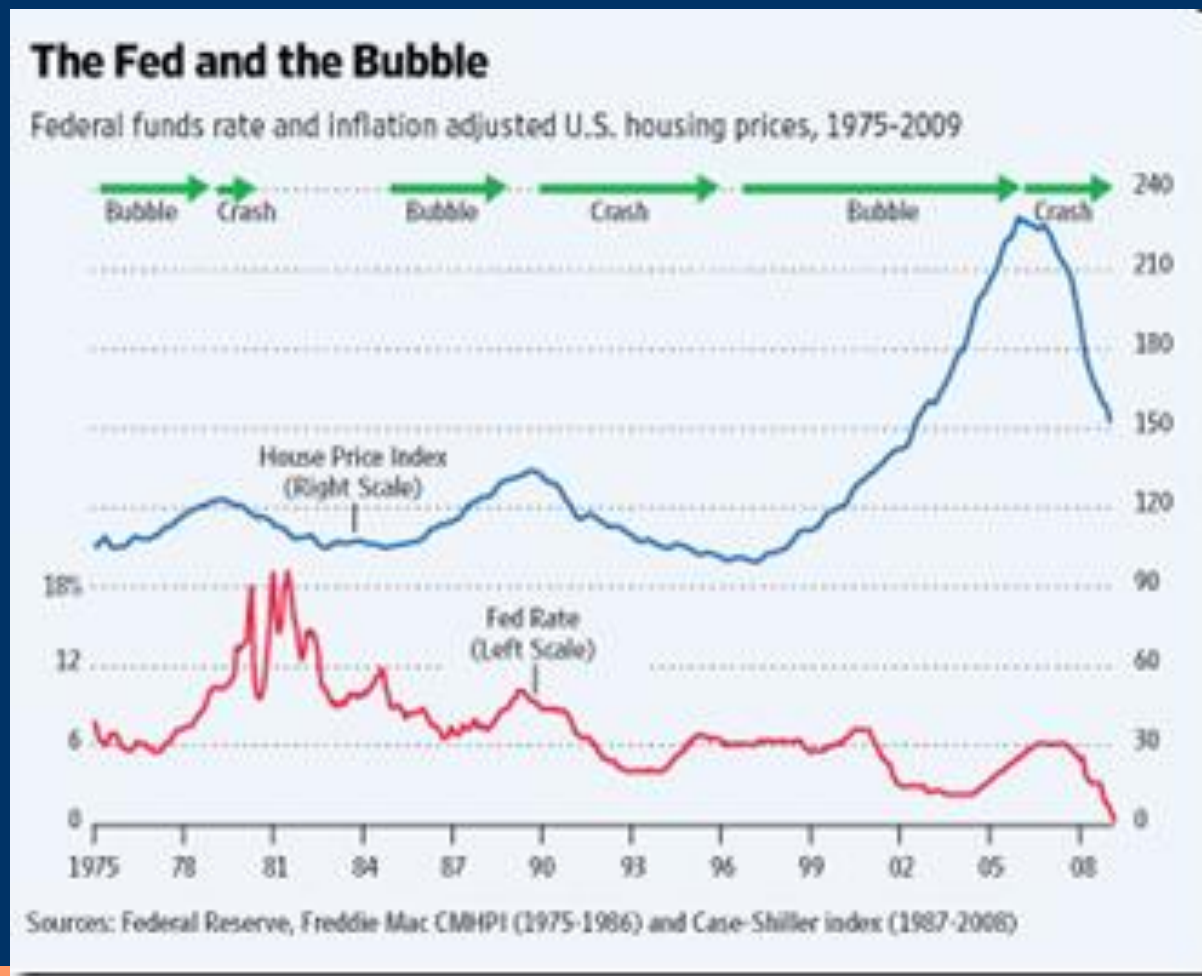
BME Spanish Exchanges, Spain ~ \$1.3 trillion

National Stock Exchange, India ~ \$1.2 trillion

SHSE Shanghai Exchanges, China ~ \$1.1 trillion

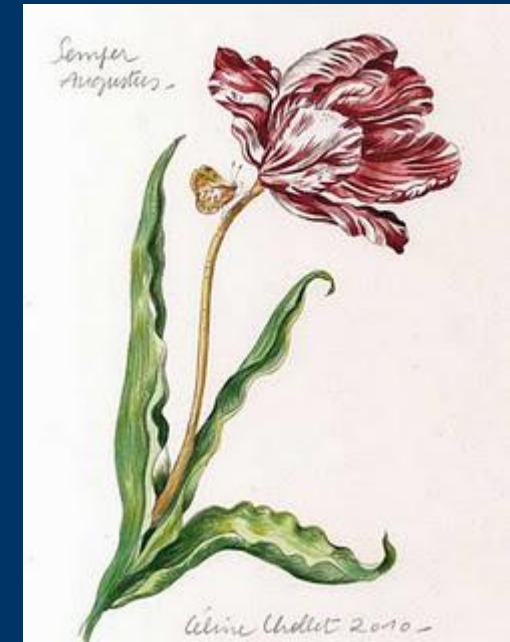
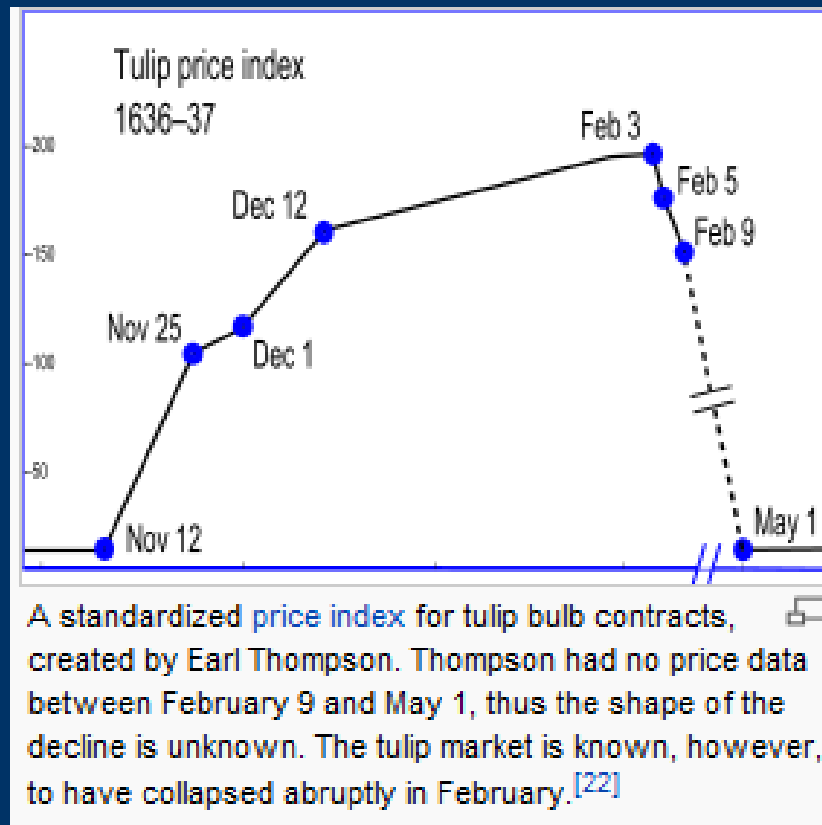
Bubble

- Price mechanism is essential to capitalism
- Bubble could be considered as a failure or an healthy correction (when it pops...)



1637 Dutch tulipomania

- In 1637 some bulbs reached fantastic prices : 10 times the annual income of a skilled craftsman !!!



The Nasdaq index during the Dotcom bubble



- Source : <http://hannes-jaehnert.de/wordpress/>

Jeff Koons' Balloon flower (magenta)
\$25,752,059 (in 2007)



Mutual funds

Compilation of individual stocks : a safe(r) and popular product in the United States.

* FCP, SICAV

Bonds

- Bond = loan (from corporation, government, cities...)
- As for stocks, there are bonds mutual funds

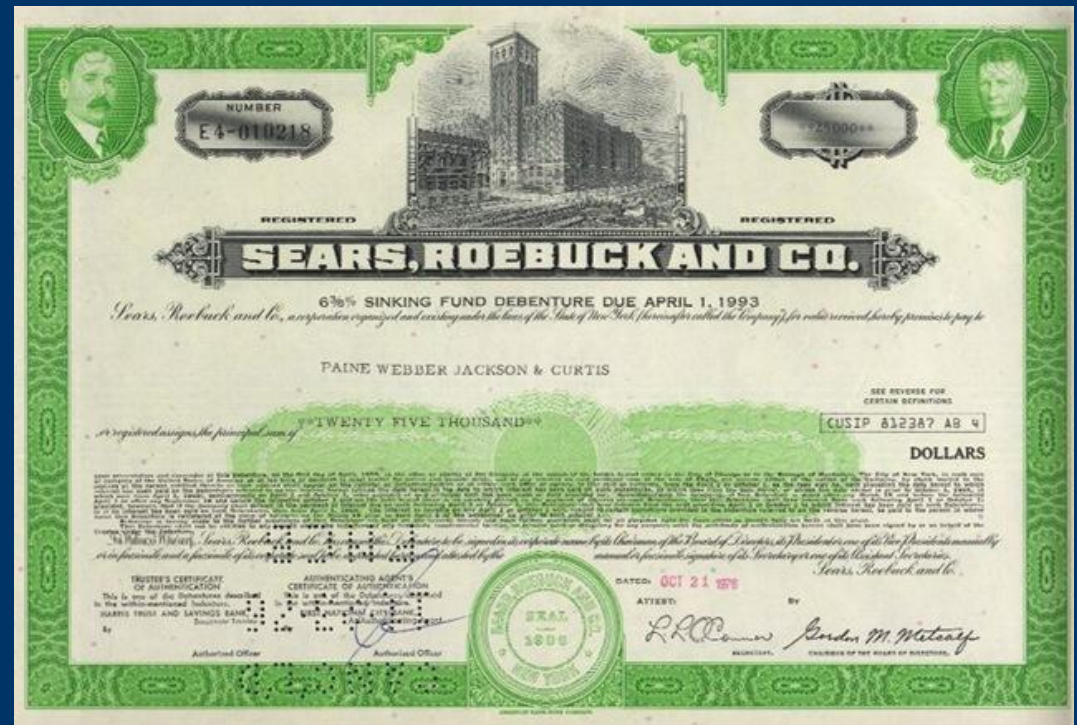
The Bond market *

A bond has

A Facial value

A maturity date

An interest rate (a coupon)



* *marché obligataire*

*Hedge funds**

- No regulation
- Hedge funds managers are paid a percentage of the gain (mutual funds invoice a fee, regardless of the benefit)
- They often use derivatives and leverage effect

**no good translation : fonds spéculatifs, fonds alternatifs, fonds d'investissement...*

Leverage

- Use a leverage effect to buy equity = funding a company with debt (LBO)

- LEVERAGE FINANCE

- Leveraged loans, (with a high rate of interest)
 - High-yield or junk bonds (less than triple-B.)
-
-

An example

Mr Brown buys 100 a company that is going to bring 10% profit a year

NO LEVERAGE

He pays cash

Sells for 150 after 5 years

Profit : 50%

LEVERAGE

He pays cash 25

Borrows 75 at 4%

Sells for 150 after 5 years

Pays back the loan (75+15)

Profit : 140%

Derivatives

- Sophisticated financial product like options or future.
- They derive their value from other assets.
- Mostly package of loans that are resold to other investors (like the famous Collateralized Debt Obligation, or CDO).

Collateralized Debt Obligations (CDO)

- Auto loans, credit card debt, mortgages or corporate debt repackaged in new product sold to investors.
- Collateralized refers to the collateral that gives the CDOs value.
- Banks make cash out of loans (they sell it so they can issue new loans)
- The risk is no more in the bank : it moved to the investors

***But there are more exotic, more twisted products :
Credit default swaps (CDS)***

- An insurance sold by the banks on an unregulated market.
 - By mid-2007, there was more than \$45 trillion invested in CDS -- more than the money invested in U.S. stock market (\$22 trillion), mortgages (\$7.1 trillion) and U.S. Treasuries (\$4.4 trillion) combined. In fact, it was almost as much as the output of the entire world in 2007, which was \$65 trillion. (Source : <http://useconomy.about.com>)
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*Private equity**

Private means : not in the stock market (not public)

Private equities are less liquid than stocks (no market)

Less information

Bigger percentage are bought for longer

** capital investissement (bad translation)*

Carlyle ?



A Washington based private equity company
specialised in military equipments

9.11 : Annual meeting at the Ritz Carlton with
members of the Ben Laden family

Frank Wisner II



Frank Wisner I co-founded the CIA

Frank Wisner II was at the board of Enron

At the board of AIG in 2008

Married Christine de Ganay

One of his son was spokesperson of Sarkozy campaign in the US

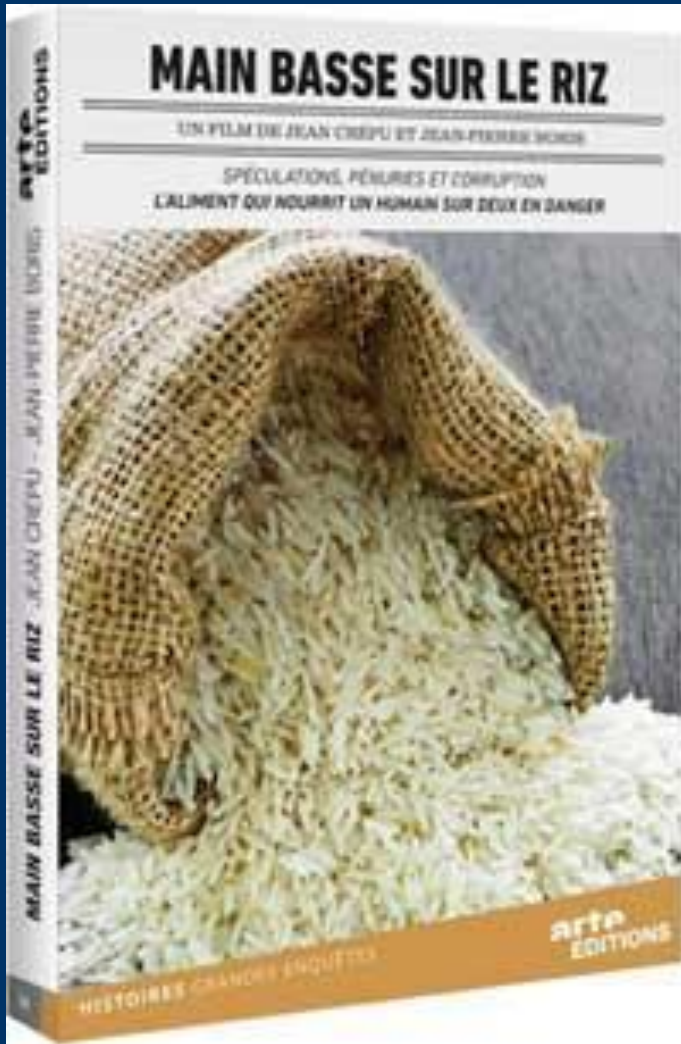
Another son is at Carlyle whose managing director of the financial service...

Commodity market



The Chicago Mercantile Exchange (CME) (often called "the Chicago Merc," or "the Merc") is an American financial and commodity derivative exchange.

The Rice crisis



In the spring of 2008, the price of rice went up by a factor of six, which infuriated consumers who already live on very little.

The situation was unprecedented, but everyone involved benefitted. Everyone along the chain of buying and selling decided to hold off selling as prices went up.

FOREX SWAP (FX SWAP)

<http://www.cambiste.info/sdmpage/prodswap/swapch10.php>

A market where people buy and sell simultaneously currencies with 2 different dates of value :

a spot foreign exchange transaction

a forward foreign exchange transaction.

Foreign exchange rate

Since 1973 rates are floating and obstacles to international funds movements have disappeared.

BREAKING NEWS

<http://imarketnews.com>

Wednesday, February 16, 2011 - 03:47

Update: China SAFE To Launch Yuan FX Options Trading

BEIJING (MNI) - Chinese banks will be able to offer yuan foreign exchange options contracts to clients from April 1 in the latest move to broaden the range of hedging tools available for those navigating an increasingly flexible exchange rate.

Futures, Collateralised debt obligation, Credit default swap...

- Le volume de produits dérivés échangés chaque année de manière opaque car de gré à gré (c'est-à-dire directement entre les banques) est d'environ 600 000 milliards de dollars (vous avez bien lu)
- Charles Sannat
- (on <http://www.pauljorion.com>)

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How Goldman Sachs Helped Greece to Mask its True Debt

By Beat Balzli (Spiegel.de 02/08/2010)

- Greece's debt managers agreed a huge deal with the savvy bankers of US investment bank Goldman Sachs at the start of 2002. The deal involved so-called cross-currency swaps in which government debt issued in dollars and yen was swapped for euro debt for a certain period -- to be exchanged back into the original currencies at a later date.
 - But in the Greek case the US bankers devised a special kind of swap with fictional exchange rates.
-
-

*Former Goldman Sachs employee
charged with stealing trade secrets*

Sergey Aleynikov



« In addition, because of the way this software interfaces with the various markets and exchanges, the bank has raised a possibility that there is a danger that somebody who knew how to use this program could use it to manipulate markets in unfair ways ».

Assistant United States Attorney, Joseph Facciponti,
july 4th, 2009

Information asymmetry

How can I decide to buy a second hand car ?

"The Market for Lemons: Quality Uncertainty and the Market Mechanism" (1970, George Akerlof).



My choice is rational but my information is incomplete.

Looting: The Economic Underworld of Bankruptcy for Profit

A 1994 paper by George Akerlof and Paul Romer.

« Our theoretical analysis shows that an economic underground can come to life if firms have an incentive to go broke for profit at society's expense (to loot) instead of to go for broke (to gamble on success). Bankruptcy for profit will occur if poor accounting, lax regulation, or low penalties for abuse give owners an incentive to pay themselves more than their firms are worth and then default on their debt obligations. »

FAUDRA-T-IL ENCORE SAUVER LES BANQUES ?, par Charles Sannat

l'ensemble des engagements des principales banques françaises représente 4,3 fois le PIB ; c'est-à-dire la totalité de la richesse produite par notre pays chaque année. Ces engagements représentent 28 fois le budget annuel de notre État ou encore 1.112 années de bénéfices de ces mêmes banques...

Source : <http://www.pauljorion.com>

Konrad Hummler and platform financing Securitization 2.0



The Sankt Gallen Anarchist banker thinks banks are bound to disappear.

But no secondary market on platform financing. Hence no liquidity.
