IAG Workshop Series

- Financial Markets
- Financial Accounting
- DCF Valuation
The Need For Financial Markets

- Companies need to grow, but how?
  - Increase customer base (i.e. Sell more goods)

- To grow, you need money, but why?
  - More factories
  - Larger sales force
  - Etc.

Forms Of Currency Acquisition

- Dept
  - Borrow from banks = loans
  - Borrow from people = bonds

- Equity
  - Preferred Stock
  - Common Stock
The Big Day

- Initial Public Offering (IPO)
  - Pricing of the company by an Underwriter
    - Goldman Sachs
    - Merrill Lynch
  - Primary Market
    - Stock sold to brokerage houses who then sell to institutional investors and/or individuals.
  - Secondary Market
    - NYSE
    - NASDAQ

What’s The Point

- Why buy stock at all?
  - PROFIT!
  - Dividends
    - Normal payments made to shareholders
      - Ex-Dividend Date
      - Dividend Date
  - Appreciation of Stock
    - Price goes up
It's Up... It's Down

- Why do stock prices move up and down?
  - Stocks are worth only what people are willing to pay for them
  - Supply and Demand
    - When there are a lot of sellers, the price goes down (high supply)
    - When there are a lot of buyers, the price goes up (high demand)

Supply and Demand

[Graph showing supply and demand relationship]
Types of Equity Investments

- Value
  - Buying a stock when you think the CURRENT price is lower than what it should be
  - A stock is trading at $10/share and you think that it is currently worth $15/share: You buy

- Growth
  - Buying a stock when you think the FUTURE price will increase above the current price
  - A stock is trading at $10/share. You think that in 10 years the price will be $15/share: You buy

Types of Valuations

- Technical Valuation
  - Pricing a stock based on how the price has fluctuated in the past
  - Ex. Buying because the stock is below its 50-day moving average

- Financial Valuation
  - Pricing a stock based on the companies historic and predicted future performance
  - Ex. Discounted Cash Flow Model
    - (Workshop 3)
Terminology

- Standard and Poors 500 (S&P500)
  - Index of the 500 most traded stocks
- Dow Jones Industrial Average (DJIA)
  - Price weighted index of 30 multinational conglomerates
- National Association of Securities Dealers Automated Quotations (NASDAQ)
  - Virtual exchange market
- Fortune 500
  - The 500 largest companies based on sales