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Secondary Market System

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Abstract: *Investors trade securities on the secondary market with one another rather than with the issuing entity. Through massive series of independent yet interconnected trades, the secondary market drives the price of securities toward their actual value. The secondary market provides liquidity to the financial system and allows smaller traders to participate. The stock market and over-the-counter markets are types of secondary market.*

Transactions that occur on the secondary market are termed secondary simply because they are one step removed from the transaction that originally created the securities in question. For example, a financial institution writes a mortgage for a consumer, creating the mortgage security. The bank can then sell it to Fannie Mae on the secondary market in a secondary transaction.

Though stocks are one of the most commonly traded securities, there are also other types of secondary markets. For example, investment banks and corporate and individual investors buy and sell mutual funds and bonds on secondary markets. Entities such as Fannie Mae and Freddie Mac also purchase mortgages on a secondary market.

Secondary markets are important for several reasons. First, they provide liquidity to investors. Having a centralized location allows trades to take place with a large number of traders while ensuring that the value of securities isn't lost as investors buy and sell securities. It also gives small traders a chance to participate in the market.

The market where existing securities are traded is referred to as the secondary market or stock market. Shares and debentures market of cost.

Secondary Market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange

Majority of the trading is done in the secondary market. Secondary market comprises of equity markets and the debt markets.

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