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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.

Keywords: Secondary Market

I. INTRODUCTION

Secondary market system:-

Securities Contracts Regulation Act, 1956, defines, "It is an association, organisation or body of individuals whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities."

Secondary markets is a market, where existing securities are sold and bought among investors or traders, usually on a securities exchange, over the counter or elsewhere.

Stock Market represent the security market where existing securities(Shares and Debentures). It is an organised mechanism for purchase and sale of existing securities

The secondary market refers to the market where previously issued financial instruments, such as stocks, bonds, and derivatives, are bought and sold by investors. It is distinct from the primary market, where new securities are issued and sold to the public for the first time. The secondary market is where securities are traded after they go through the primary market. It is a key part of the financial system, providing liquidity to the market. It also allows traders with a centralized location where they can make trades.

The secondary market is where investors buy and sell securities. Trades take place on the secondary market between other investors and traders rather than from the companies that issue the securities. People typically associate the secondary market with the stock market. National exchanges, such as the New York Stock Exchange (NYSE) and the

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NASDAQ, are secondary markets. The secondary market is where securities are traded after they are put up for sale on the primary market. The secondary market provides investors and traders with a place to trade securities after they are put up for sale on the primary market.

Functions of The Secondary Market

The secondary market is where the major chunk of stock trading happens. This basically functions as a platform that gives the opportunity to the masses to invest in company stocks. The secondary market also functions as an enabler of active, continuous trading that helps keep assets liquid and price variations in check. That being so, the secondary market also serves as a medium for investors to generate quick cash by selling off the shares they own. In helping discover prices of shares based on demand and supply, the secondary market functions as a medium of price determination.

The secondary market also functions as an organized place where investors can invest their money in market securities with some sort of regulatory safety net in place. The secondary market, in a way, reflects the state of the economy of a nation.

Secondary market functions allow investors to buy and sell securities among tlhemselves without the involvement of the issuing company. Intermediaries such as brokers and dealer market play a key role in matching buyers and sellers, and facilitating the transaction process. Trading mechanisms in secondary markets can take the form of auctions, where buyers and sellers compete to match their orders, or continuous trading, where trades are executed based on a set of predetermined rules. These are some of the main function of secondary markets.

Secondary market, also known as aftermarkets, play a crucial role in the global economy. They facilitate the trading of existing financial assets, such as stocks, bonds, and derivatives, between buyers and sellers. In this blog, we will explore the function, importance, types, and participants of secondary financial markets, as well as their benefits and risks. Let us now define secondary market for a better understanding.

Types of secondary market

Secondary market is a place where a majority of stock trading happens. It is of two types: the Stock Exchange market, and the Over-The-Counter market. Let's understand both these markets in detail.

The Stock Exchange :-

Stock exchanges are secondary markets of a massive scale that a high percentage of the population participates in for trading. In India, the best examples of secondary markets are the National Stock Exchange and the Bombay Stock Exchange.

Secondary markets are associated with uncompromising regulations regarding market securities, making them a place with low counterparty risks. However, this increases the fees, transaction costs and commissions associated with them. Most of the market indices you see (like Nifty 50 or S&P 500) can be found listed in the secondary markets.

The stock exchange assists trading in secondary market, acting as a guarantor.

Over-The-Counter Market:-

The over the counter secondary market is a place where the stock exchange is not involved. This is a platform where investors trade among themselves with the shares that they own. Since there is no regulatory authority or compulsion involved with this manner of trading, the counterparty risks in over the counter trading are typically high. Also, there is no standardization of share prices, since it varies from one owner to another (the buyer and the seller directly deal with each other regarding all terms and conditions of a trade contract). You may not have known that FOREX (Foreign Exchange) comes under Over The Counter market.

Example of secondary market:-

Here are a few examples of secondary market transactions:

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Stock trading:-
An investor buys shares of a publicly traded company, such as Apple or Amazon, from another investor on the New York Stock Exchange (NYSE). The shares were previously issued by the company in an initial public offering (IPO) and are now being traded on the secondary market.

Bond trading:-
An investor buys a bond issued by a corporation, such as Microsoft or Coca-Cola, from another investor in the bond market. The bond was previously issued by the company to raise funds and is now being traded on the secondary market.

Mutual fund investment:-
An investor purchases shares of a mutual fund, such as Fidelity or Vanguard, from another investor in the secondary market. The mutual fund invests in a diversified portfolio of securities, such as stocks and bonds, and is now being traded on the secondary market.

Options trading:-
An investor buys a call option on a stock, such as Tesla or Facebook, from another investor in the options market. The call option gives the investor the right, but not the obligation, to buy the underlying stock at a specified price within a certain time period.

Futures contract trading:-
An investor buys a futures contract on a commodity, such as crude oil or gold, from another investor in the futures market. The futures contract obligates the investor to buy or sell the underlying commodity at a specified price on a specified date in the future.

Characteristics Secondary Market
The most defining characteristic of the secondary market is that it's the marketplace for buying and selling securities. This is where an investor can purchase new securities and sell his holding anytime during the active market hours.
There are more defining characteristics of the secondary market:

Organizational Structure:-
Formal markets like stock exchanges are regulated, whereas OTC markets are less formal and not bound by a centralized exchange. For example, Nasdaq is a formal, regulated market, while Forex trading often happens over the counter.

Types of Instruments:-
Stocks, bonds, and derivatives are common instruments. Alice Blue, for example, offers a platform to trade in multiple types of financial instruments.

Market Participants:-
Includes retail investors, institutional investors, and market makers, each playing a unique role in the market dynamics.

Trading Volume:-
High trading volumes are often seen in popular stocks, also which contributes to liquidity.

Advantage of secondary market
Secondary market transactions offer several advantages for investors, issuers, and the overall financial system. Here are some of the key advantages:

Liquidity:-
The secondary market provides liquidity for investors by allowing them to easily buy and sell previously issued securities. This makes it easier for investors to adjust their portfolios in response to changing market conditions and allows them to access cash, if needed, quickly.

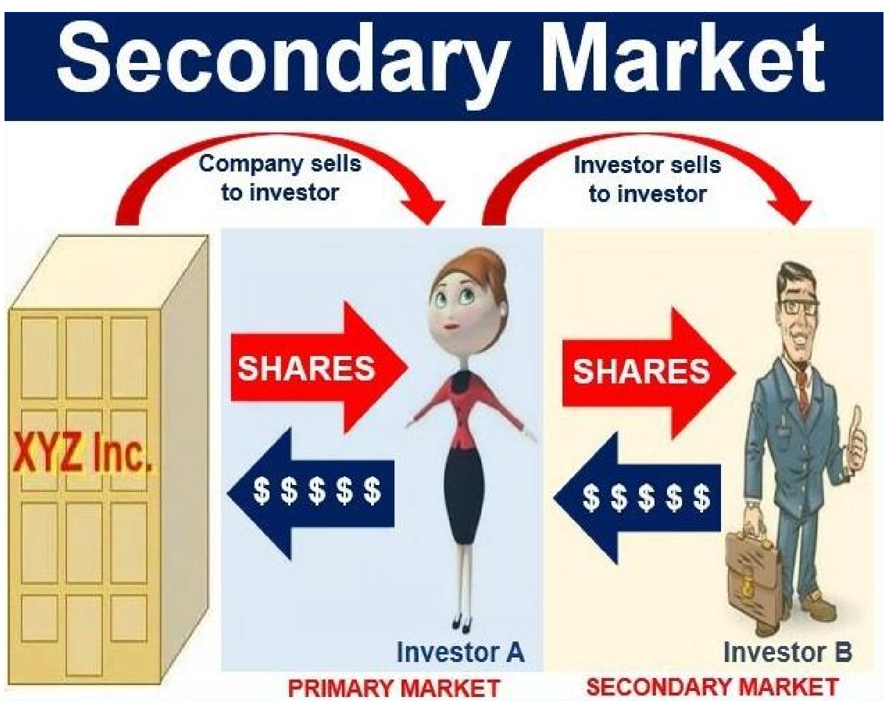
Price discovery:-
The secondary market facilitates price discovery by allowing investors to trade securities based on the supply and demand dynamics of the market. This helps to ensure that securities are priced efficiently and that investors receive fair value for their investments.

Transparency:-
Secondary market transactions are often transparent, with information about the securities, the issuers, and the trading volume readily available to investors. This helps to ensure that investors are well-informed and can make informed decisions about their investments.

Capital raising:-
It can also facilitate capital raising by allowing companies to issue new securities to raise funds from investors. This can be done through follow-on offerings or secondary offerings.

Diversification:-
It provides investors with a wide range of investment opportunities, which allows them to diversify their portfolios and potentially earn higher returns.

Risk transfer:-
The secondary market allows investors to transfer risk by buying and selling securities. For example, an investor who owns a stock and is concerned about a potential market downturn can sell the stock to another investor, thereby transferring the risk to the new owner.



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Disadvantaged of secondary market

While there are many advantages to the secondary market, there are also some potential disadvantages that investors should be aware of.

Volatility:-

The secondary market can be volatile, with prices of securities fluctuating rapidly in response to changes in market conditions, investor sentiment, and other factors. This can create uncertainty and make it difficult for investors to predict the value of their investments.

Market manipulation:-

The secondary market is vulnerable to market manipulation, such as insider trading or other fraudulent activities, which can distort prices and harm investors.

Counterparty risk:-

In secondary market transactions, investors are exposed to counterparty risk, which is the risk that the other party to the transaction will not fulfil their obligations. This can be particularly problematic in over-the-counter (OTC) markets where there is no central clearinghouse to guarantee trades.

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Limited access:-

Some secondary markets may be limited to certain types of investors, such as accredited investors or institutional investors, which can limit access for individual investors.

Regulatory risk:-

Secondary market transactions are subject to regulation by government authorities, and changes in regulations can affect the functioning of the market and the value of securities.

Price discrepancies:-

The price of a security on the secondary market may not always accurately reflect its underlying value or prospects, which can create discrepancies and misalignments between market prices and fundamental values.

Price fluctuations are very high in secondary markets, which can lead to a sudden loss. Trading through secondary markets can be very time consuming as investors are required to complete some formalities.

Sometimes, government policies can also act as a hindrance in secondary markets. Brokerage fees are high as every time an investor sells or buys shares, he/she needs to pay a brokerage commission.

Objectives Of Secondary Market

The primary objective of the secondary market is to provide liquidity to securities. Doing so makes trading easier and more efficient.

Here are the main objectives detailed:

Providing Liquidity:-

As we've discussed, the secondary market allows for easy trading of existing securities, turning them into liquid assets. So, if you want to cash out, this is your go-to-market.

Price Determination:-

The constant buying and selling in the secondary market help to establish the fair market price of different securities. This is essential for both buyers and sellers to get a good deal.

Safety of Transactions:-

With regulated platforms and clear trading procedures, the secondary market aims to provide a safe environment for trading. Platforms like Alice Blue adhere to these regulations, ensuring secure trades.

Capital Allocation:-

By facilitating securities trading, the secondary market helps in the optimal allocation of capital. It directs funds from less profitable ventures to those that have higher potential returns. To understand the topic and get more information, please read the related stock market articles below.

Analysis of Secondary Market Research
In the context of business and marketing, secondary market research offers a different yet crucial angle of study. Secondary market research involves the use of existing data, collected for another purpose, to inform business decisions. This could include data from various sources, such as government reports, studies conducted by other businesses, or academic articles.
Secondary Market Research Methods
As opposed to primary research, which involves the direct collection of data, secondary research relies on data that already exists. This presents a unique challenge of knowing how to seek out the right data, and critically evaluate it for relevance and reliability. Here are some of the methods commonly used to conduct secondary market research.
Data Compilation:-
This involves gathering data from different sources and organising it in a meaningful way. For instance, one might collect information on consumer spending from various industry reports, or extract relevant information from scholarly articles.
Data Analysis
Once the data has been compiled, it needs to be analysed. This could involve statistical analysis, looking for trends or patterns, or interpreting qualitative data. An example of data analysis could be identifying market trends from sales data over time.
Comparative Research:-
This method involves comparing data from different sources or time periods to identify changes, trends, or differences. For instance, a company could compare sales data from the last ten years to identify long-term growth rates and patterns

II. CONCLUSION

The secondary market is the place you most likely refer to as the stock market. This is where you go when you wish to trade in market securities. It may be secondary only in concept; the market functions as the backbone of stock trading in India – it is where investors gather and give the indices the trends they have – whether bull or bear, it all happens on the secondary market.
Stock exchanges like NSE and BSE are also counted as secondary markets as this is where the issuing company isn't involved in dealing with the shares it has issued.
The secondary sector, with its ability to transform raw materials into valuable products, acts as a catalyst for economic transformation. India's industrial landscape, characterized by diversity and challenges, is a testament to the sector's role in shaping the nation's progress. As India continues to innovate, invest, and overcome obstacles, the secondary sector's capacity to generate employment, drive technological advancement, and contribute to economic growth remains pivotal.
The secondary market is a vital component of the financial system, as it provides liquidity, price discovery, and capital allocation for securities. It enables investors to buy and sell previously issued securities, such as stocks, bonds, and derivatives, based on the forces of supply and demand. It also helps determine the value of securities and the underlying companies, which serves as a benchmark for the primary market. By facilitating the trading of securities, the secondary market promotes economic growth, innovation, and efficiency.

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