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Secondary Market System

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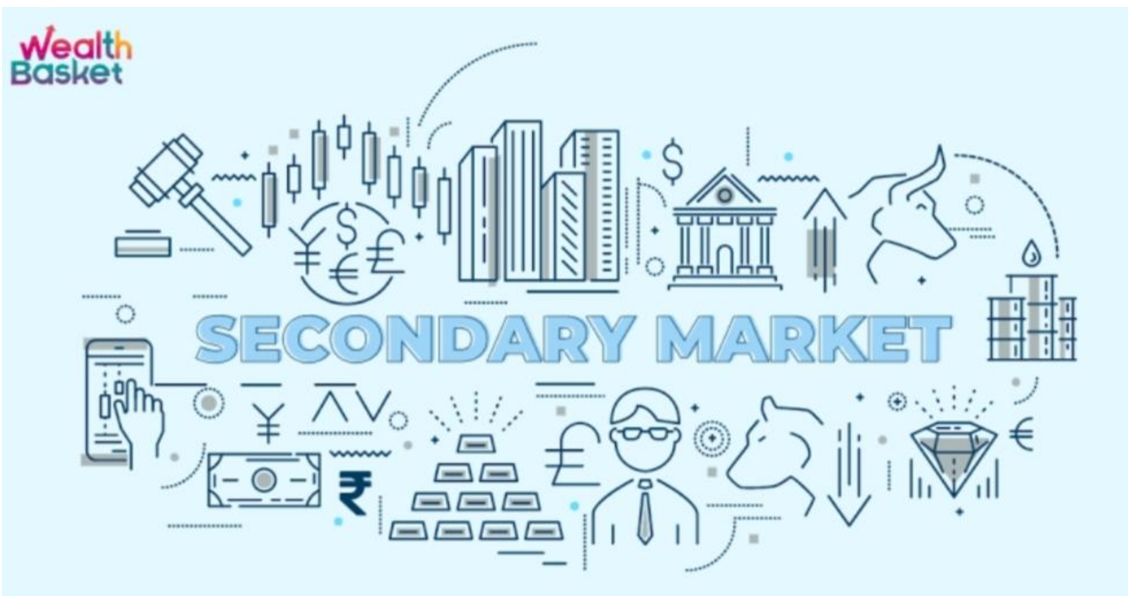
Abstract: *The secondary market is where investors buy and sell securities. Trades take place on the secondary market between other investors and traders rather than from the companies that issue the securities. People typically associate the secondary market with the stock market*

Keywords: Trades

I. INTRODUCTION

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 NASDAQ, are secondary markets. The secondary market is where securities are traded after they are put up for sale on the primary market.

KEY TAKEWAYS: -

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

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 markets.

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Secondary Market System in Simple Words: -

MAIN CONTENT: -

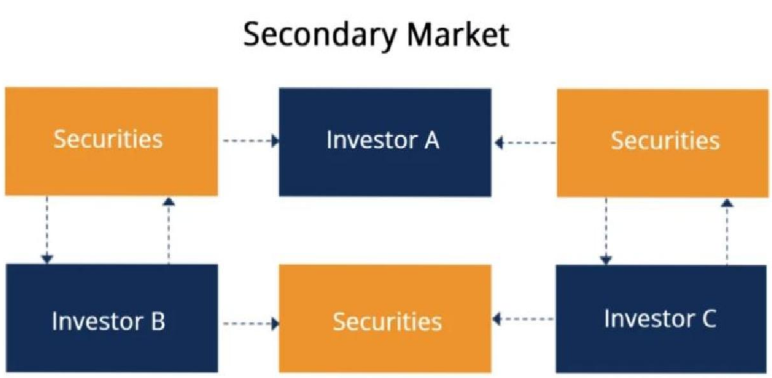
Some of the entities that are functional in a secondary market include –

Retail investors.

Advisory service providers and brokers comprising commission brokers and security dealers, among others.

Financial intermediaries include non-banking financial companies, insurance companies, banks. And mutual funds.

This is the market where securities are traded. Investors trade securities without the involvement of the issuing companies. Investors buy and sell securities among themselves. The secondary market does not provide financing to issuing companies –they are not involved in the transaction. The amount received for a security in the secondary market is income for the investor who is selling the securities.



The primary market provides interaction between the company and the investor, while the secondary market is where investors buy and sell securities from other investors.

How Does the Secondary Market Work?

The secondary market facilitates the buying and selling of previously issued securities like stocks, bonds, options, and futures contracts. Typically issued by companies or governments in the primary market, these securities are traded

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based on supply and demand, with prices rising with high demand and falling with low demand. This dynamic pricing ensures efficient valuation and fair returns for investors.

Two primary types of secondary markets exist: exchange-traded markets (e.g., NYSE, Nasdaq) and over the counter (OTC) markets. Exchange-traded markets involve centralized trading through brokers or online platforms, with orders executed via a clearinghouse. In contrast, OTC markets involve direct trading with dealers, offering flexibility in securities traded but may be less transparent and more exposed to counterparty risk.

Instruments in Secondary Market: -
Here are the vital secondary market instruments:
1)Fixed Income Instrument:
Instruments form part of investments that guarantee fixed income in the form
of regular payments.
Example: Debentures and bonds
i)Corporate Bond:
These are tradable debt securities issued by corporations, B such as Apple or Amazon.
ii) Government Bond:
These are tradable debt securities issued by governments, such as US Treasuries.
2)Variable Income Instrument:
Investments made in these instruments do not guarantee a fixed, regular income.
Instead, thereturns vary based on the market fluctuations.
Example: equity and derivatives.
i)Futures:
These are contracts that obligate buyers and sellers to buy or sell assets at a
predeterminedprice and time in the future.
ii) Options:
These are contracts that give buyers the right but not the obligation to buy or
sell assets at a predetermined price and time in the future.
Hybrid Instrument:
Instruments offer both fixed and variable returns on investments.
For example, a convertible debenture.
Aftermarkets Participants of Secondary Market: -
Investors:
These are individuals or institutions that buy and sell securities in secondary markets for investment purposes.
Brokers:
These participants in secondary markets are intermediaries that facilitate trades
between buyers and sellers in secondary markets, charging fees or commissions for their services.
Market Makers:
These are intermediaries that provide liquidity to aftermath markets by buying and selling securities on their own account.
Regulators:
These are government agencies that oversee and regulate secondary markets to ensure
They operatefairly and efficiently.
Types of Secondary Market: -
Secondary markets are primarily mainly of two types – Stock exchanges and over-the-counter markets.

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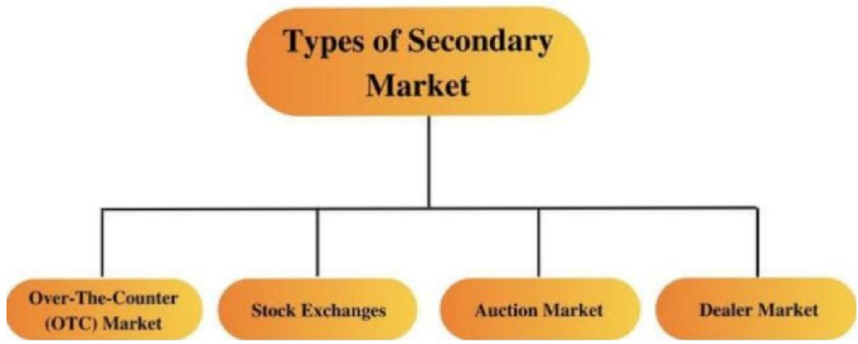


Stock Exchange

Stock exchanges are centralized platforms where securities trading take place, sans any contact between the buyer and the seller. National Stock Exchange (NSE)and Bombay Stock Exchange (BSE) are examples of such platforms.

Transactions in stock exchanges are subjected toStringent regulations in securities trading.

A stockExchange itself acts as a guarantor, and theCounterparty risk is almost non-existent. Such aSafety net is obtained via a higher transaction costBeing levied on investments in the form ofCommission and exchange fees.

Securities traded through a centralized place with no direct contact between seller and buyer. Examples are the New York Stock Exchange (NYSE) and the London Stock Exchange (LSE).

In an exchange-traded market, securities are traded via a centralized place (for example, the NYSE and the LSE). Buys and sells are conducted through the exchange and there is no direct contact between sellers and buyers. There is no counterparty risk – the exchange is the guarantor.

Exchange-traded markets are considered a safe place for investors to trade securities due to regulatory oversight.

However, securities traded on an exchange-traded market face a higher transaction cost due to exchange fees and commissions.

2) Over the counter (OTC) Markets

No centralized place where securities are traded. In the over-the-counter market, securities are traded by market participants in a decentralized place. (e.g., the foreign exchange market).

The market is made up of all participants in the market trading among themselves.

Since the over-the-counter market is not centralized, there is competition between providers to gain a higher trading volume for their company.

Prices for the securities vary from company to company. Therefore, the best price may not be offered by every seller in an OTC market. Since the parties trading on the OTC market are dealing with each other, OTC markets are prone to counterparty risk.

In an OTC market, there exists tremendous competition in acquiring higher volume. Due to this factor, the securities' price differs from one seller to another.

Apart from the stock exchange and OTC market, other types of secondary market include auction market and dealer market.

The former is essentially a platform for buyers and sellers to arrive at an understanding of the rate at which the securities are to be traded. The information related to pricing is put out in the public domain, including the bidding price of the offer.

Dealer market is another type of secondary market in which various dealers indicate prices of specific securities for a transaction. Foreign exchange trade and bonds are traded primarily in a dealer market.

Objectives and Functions of Secondary Market: -

The primary objectives of a secondary market are to provide marketability to existingsecurities and to facilitate the acquisition of capital by corporate enterprises.

In orderto accomplish these objectives, the secondary market performs the following functions:

To provide for a Regular Market:

The secondary market provides for a ready and continues market where those desiringtodealinsecurities buy and sell securities during the business hour. This enables investors to liquidate theirinvestments quickly and with the least possible loss. High marketability of securities enhances theirvalue and facilitates the use of these securities as collateral for loan.

To provide Stability in Prices of Securities

Through the mechanism of regular purchase and sale of securities, the secondary market ensures continuity and stability in share price, which is an essential requirement of liquidity, Hulls, bears and stockbrokers operating in the market deal in securities with extreme the expected changes in security prices and buy or sell securities accordingly to take price advantage.

For instance, speculators expecting rise in share prices in future hays shares at lower prices in the present and disposes them off in future. This results in gradual rise in prices and avoids violent fluctuations in share prices. This, regular transactions in securities prevent sharp movement in prices unless warranted by economic and political developments in the country and abroad. Stockbrokers render useful services in equalizing prices of securities of different Markets.

They make heavy buying in the market where share prices are ruling low and thereby increase pressure of demand of securities which would in consequence raise share prices.

Where share prices are high, the stockbrokers tend to depress the rise by selling securities substantially.

Regular Valuation of Securities:

Another redeeming function of the secondary market is to provide mechanism to evaluate securities properly. For proper valuation of securities, the market provides such an economic machinery which could produce prices of securities as close as possible to investment value based on present and future income yielding prospects of various enterprises capitalized at notional rate of interest, i.e. The rate that will prevail if and when all the liquid. Savings are employed into productive avenues. This can be achieved by intelligent anticipation of future income yielding prospects of various overprizes and notional rate of interest.

A well-developed secondary market disseminates full. Information about listed companies attracts a large number of informed and sellers from all walks of life and arouses keen competition among this resulting in the establishment of fairest possible price.

To provide Safety in Dealings:

A well-organized and regulated secondary myriad ensures a greater measure of safety and fait dealings to the average investor. Because transactions are made publicly under well-defined rules, regulations and by-laws of the exchange. For any malpractice, or for not observing the exchange rules, the member broker is severely dealt with by the stock exchange. A listed company is required to make a continuous disclosure of all material informationfor thebenefit of the investors.

To ensure wide Ownership of Securities:

A secondary market ensures wider distribution of securities. If a company's securities are listed in different stock markets of the country, its securities will be bought and sold by persons spread across the country and ownership of securities is widely diffused. Broadownership also safeguards the corporate sector from government interference andprotects genuine security markets from dominance by large institutions andGovernment bodies.

Thus, secondary ordindary markets serve the nation in several ways through their multifarious services. However, to many people, the secondary market is in separately associated with speculation with a word that carries with it a cluster of anti-social implications and monstrously perverts its functions and advantages. There is no denying fact that unscrupulous and unbridled speculations breed all sorts of misfortunes. But genuine speculations, which enable the stock exchange to render the services stated above, need not be discouraged. As such, while thesignificance of the secondary market need not belittled, it must always be subject to the maintenance of normally conducive conditions and effective check over unscrupulous speculation.

It Is important to note that both the segments of the capital market are equally important while not being mutually exclusive. Only when a country’s primary market is alive, is it possible to ensure a good deal of activity in the secondary market because it is the primary market which will ensure a continuous flow of securities to the secondary market, more so in developing economies. Looking from the other angle, if a country’s secondary market is only active but not transparent and disciplined; the cult of equity and related investment in theprimary market will be difficult to be continuously developed and sustained because the liquidity which the secondary markets impart to such investment in the hands of the investors will be adversely affected.

Roleof SEBI in Secondary Market

Measures taken by the SEBI to improve the functioning of secondary markets: -

The SEBI has been carrying out inspection of all the stock exchanges toDetermine, inter alia,the extent of compliance with its directives.

Computerized or screen-based trading has been achieved on all exchanges.

Corporate membership allowed and encouraged and articles of association of the stockexchanges amended so as to increase their membership.

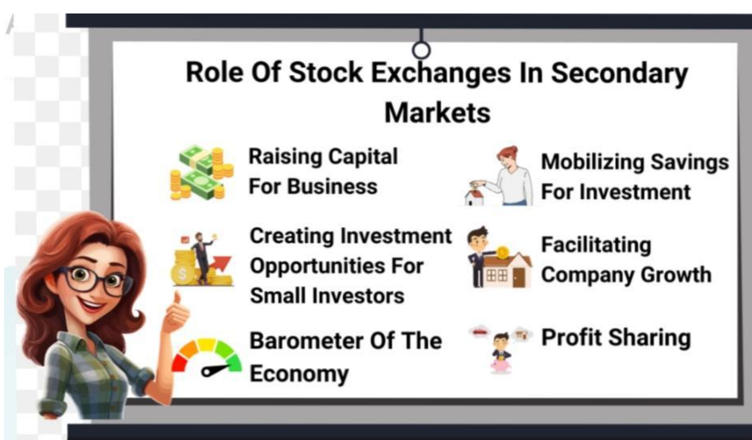
All the stock exchanges have been directed to establish either a clearing house or clearingcorporation.

Demat forum of trading was made compulsory in many scripts.

Rolling settlement on T+2 system for all listed securities exchanges.

The stock by the Securities Amendment Act, 1999 ban on forward trading was lifted. Trading inderivatives was allowed and derivatives were made securities eligible. For trading. Mutual funds and financial institutions were allowed trading in derivatives for hedging purposes. In November 29, 2007, the SEBI approved derivative products to mini contracts on equity indices, options with longer tenure, volatility index and futures and options contracts, exchange traded currency futures and options.

Created the facility of depository in all stock exchanges, thus, providing for the establishment of depositories in securities with the objective of ensuring free transferability of securities, its speed, accuracy and security.



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Features of Secondary Market: -

The secondary market is pivotal for stock market liquidity, empowering traders to transact freely. Investors benefit by easily selling and buying securities within market hours.

Liquidity:

Enables seamless buying and selling in the stock market.

Price Discovery:

Determines a security's fair market value through supply and demand dynamics.

Transparency:

Prominent in stock exchanges, ensuring all participants access price information.

Accessibility:

Online brokerages, such as Alice Blue, facilitate easy entry for retail investors.

Market Orders:

Provides flexibility with various order types, like limit and stop orders, enhancing trading strategies

Advantages of Secondary Market: -

Investors can ease their liquidity problems in a secondary market conveniently. Like, an investor in need of liquid cash can sell the shares held quite easily as a large number of buyers are present in the secondary market.

The secondary market indicates a benchmark for fair valuation of a particular company.

Price adjustments of securities in a secondary market take place within a short span in tune with the availability of new information about the company.

Investor's funds remain relatively safe due to heavy regulations governing a secondary stock market. The regulations are stringent as the market is a source of liquidity and capital formation for both investors and companies.

Mobilization of savings becomes easier as investors' money is held in the form of securities.

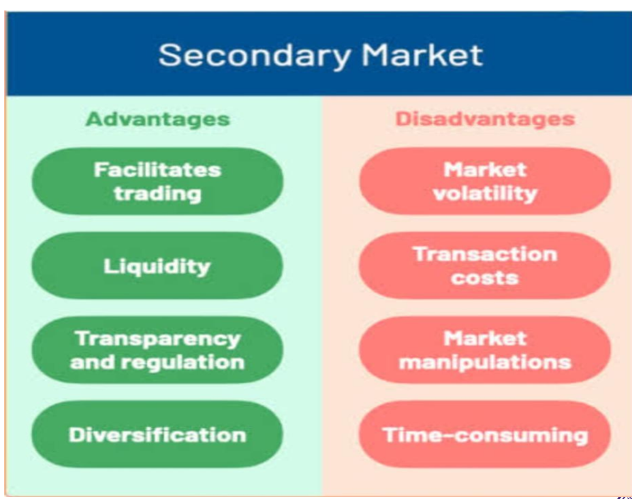
Disadvantages of Secondary Market: -

Prices of securities in a secondary market are subject to high volatility, and such price fluctuation may lead to sudden and unpredictable loss to investors.

Before buying or selling in a secondary market, investors have to duly complete the procedures involved, which are usually a time-consuming process.

Investors' profit margin may experience a dent due to brokerage commissions levied on each transaction of buying or selling of securities.

Investments in a secondary capital market are subject to high risk due to the influence of multiple external factors, and the existing valuation may alter within a span of a few minutes.



Methodology: -

Free-float methodology is a method of calculating the market capitalization of a stock market index's underlying companies. Using this methodology, the market capitalization of a company is calculated by taking the equity's price and multiplying it by the number of shares readily available in the market.

Secondary Data: -

Information that is already compiled, collected, and easily gathered.Secondary research has the potential to provide specific information relatedto the business' industry.

Can be easier to analyze as the data has already been compiled and formedinto an easy-to-understand format, either via pie charts, spreadsheets, bar graphs, or other medium. Not only is this method far more cost-effective and less time-consuming compared to conducting primary market research, but it is fareasier to collect as the data you will want is already waiting in multiple sources.

Information gathered is more than likely not going to be specific tothe business and its needs.

The information on the internet could be out of date, either by monthsor years, so circumstances of where this information can be used will vary.

As it is on the internet, it can be easily manipulated, forged, inaccurately collected, or have a biased skew. E.g: a survey on racism could have only interviewed people of one race, and this detail may not have been disclosed.

II. CONCLUSION

In conclusion, secondary financial markets play a vital role in the global financial system by providing liquidity, price discovery, and efficient allocation of capital. There are various types of secondary markets, including stock exchanges, bond markets, derivatives markets, and foreign exchange markets. Moreover, if you are planning to invest in the share market, you can check outsmallcases. It is a modern investment product that offers expert-curated readymade portfolios for you to invest in.

Securities originate in the primary market and are subsequently traded by investors in the secondary market.

In the secondary market, investors actively trade securities, akin to a stock exchange. For example, if you are eyeing Apple stock, you would acquire it from existing investors rather than directly from Apple.

Various forms of secondary transactions exist, such as when an early investor sells the company stock to a third party, employees exercise their share options, or founders undergo liquidation as part of a financial round.

Characteristics of Secondary market:

It is a market for purchase and sale of existing securities.

Both buying and selling of securities can take place.

It is located at specified places.

The price of securities is determined by the demand and supply of thesecurities