



# Introduction to Equity Markets

A graphic featuring a light gray grid background. At the top, there are three circular icons connected by dotted lines: a bar chart with a dollar sign, a person icon, and a clipboard with a checklist. Below these icons is a solid gray bar chart with three bars of increasing height. At the bottom, there is a magnifying glass icon over a building icon, followed by three more solid gray bars of increasing height.

## Business Structures



Equity markets are all about **business ownership**



**Sole  
Proprietorships**



**Partnerships**



**Corporation**

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## Sole Proprietorships



One individual **owns all assets**



Responsible for the **liabilities**

No separation between the **business** and the **owner's personal assets**

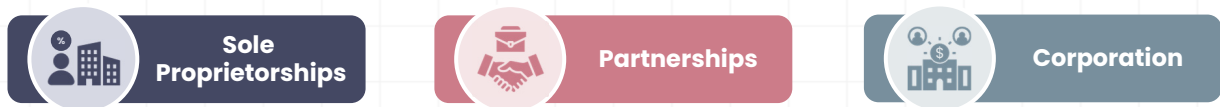
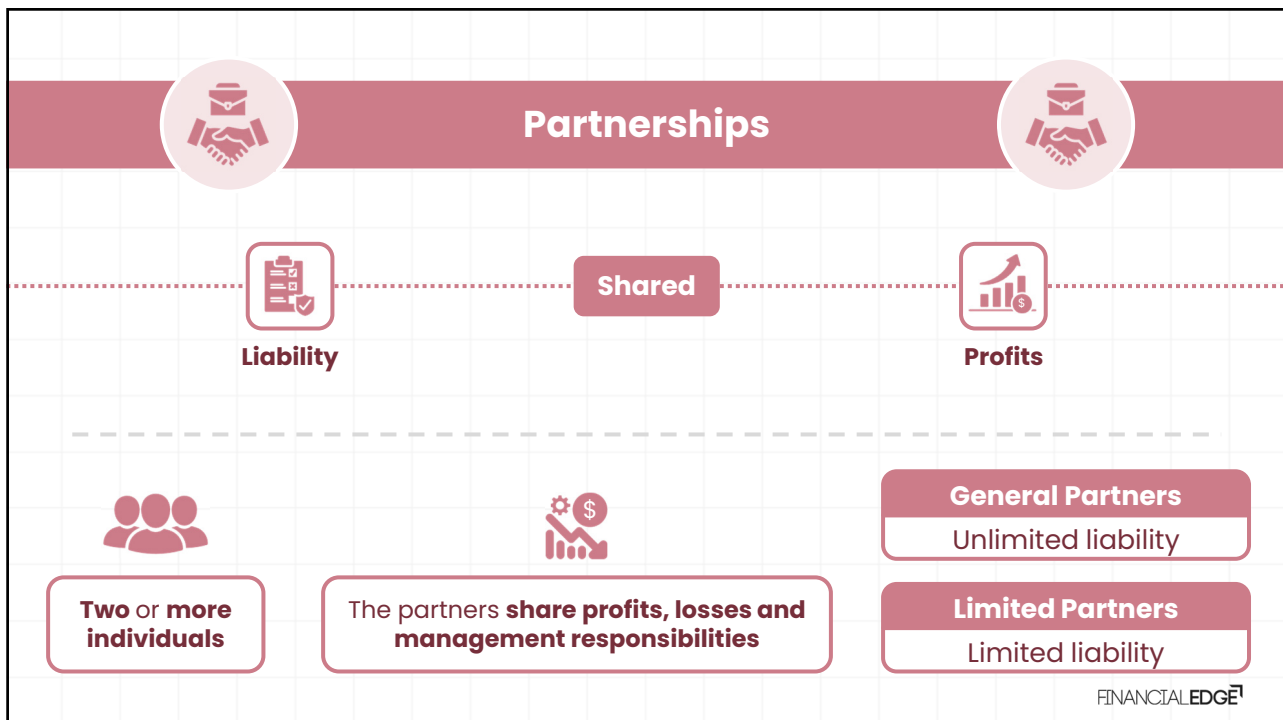


The owner has **unlimited liability for business debts**

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Equity markets are all about **business ownership**

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Equity markets are all about **business ownership**



**Sole  
Proprietorships**



**Partnerships**



**Corporation**

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## Corporation



Legal entity that is **separate and distinct from its owners**

It is recognized by **law as having its own rights and responsibilities** and it can:



**Own assets**



**Incur liabilities**



**Sue or be sued**



**Enter into contracts**

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## Corporation



Key advantages of **setting up a business as a corporation** are:



### Limited liability

Shareholders have **limited liability** for the **debts and actions of the corporation**



### Perpetual existence

Corporations continue to exist even if **ownership or management changes**



### Credibility

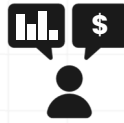
Incorporation can **add legitimacy and credibility to a business**

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## Private vs. Public Equity



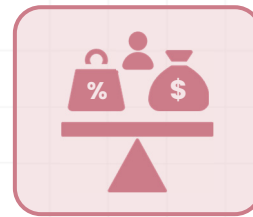
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When we look at the world of **equity investments**, there are two main types you should know about:



**PRIVATE EQUITY**



**PUBLIC EQUITY**



**PRIVATE EQUITY**

Investing in companies that **aren't traded on the public stock market**



**Exclusive club** where only **certain investors can join**



**Venture capital**

**Seed capital**



Money given to **young, small companies** that have the **potential to become big**



**Initial funding** that helps **start a new company**



## PRIVATE EQUITY

Investing in companies that **aren't traded on the public stock market**



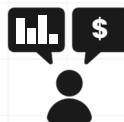
**Exclusive club** where only **certain investors** can join



### Buyout

**PE firms** might buy a majority stake in an **established company**

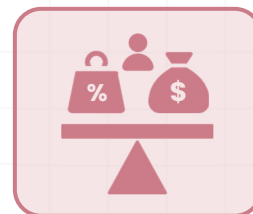
With the goal to **reinvigorate** them, **streamline operations** or **reposition** them in the market

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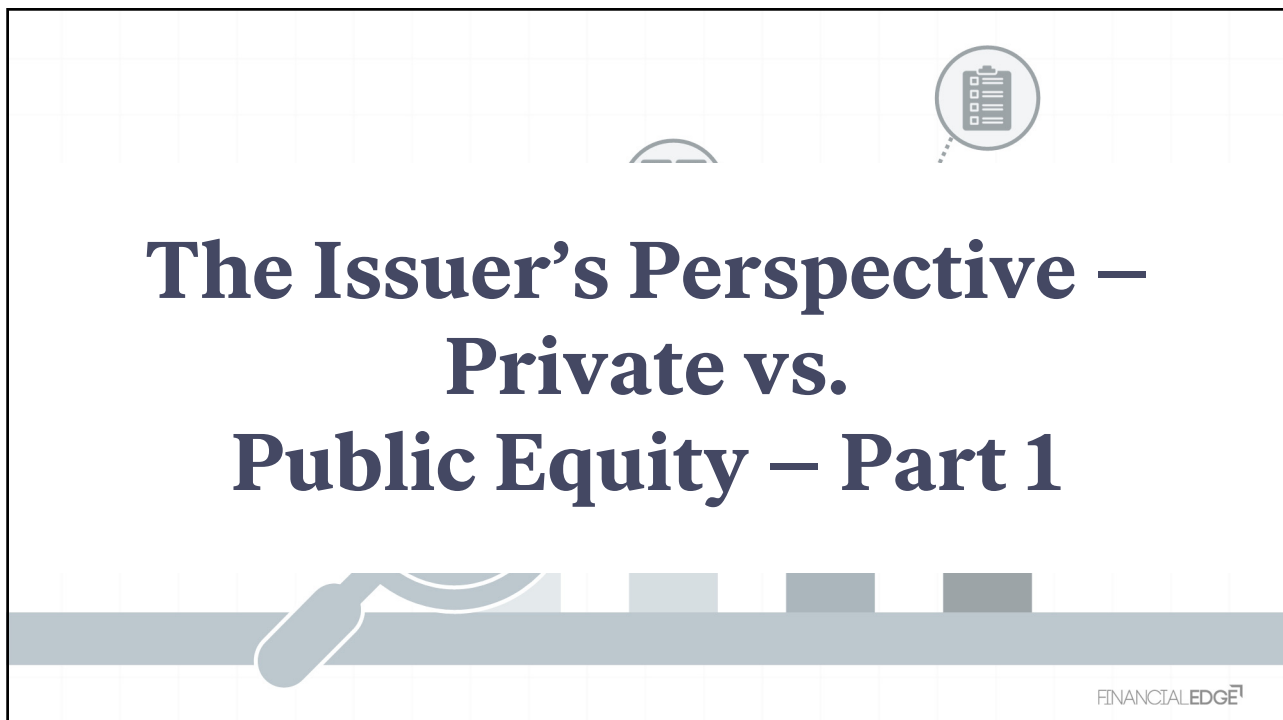
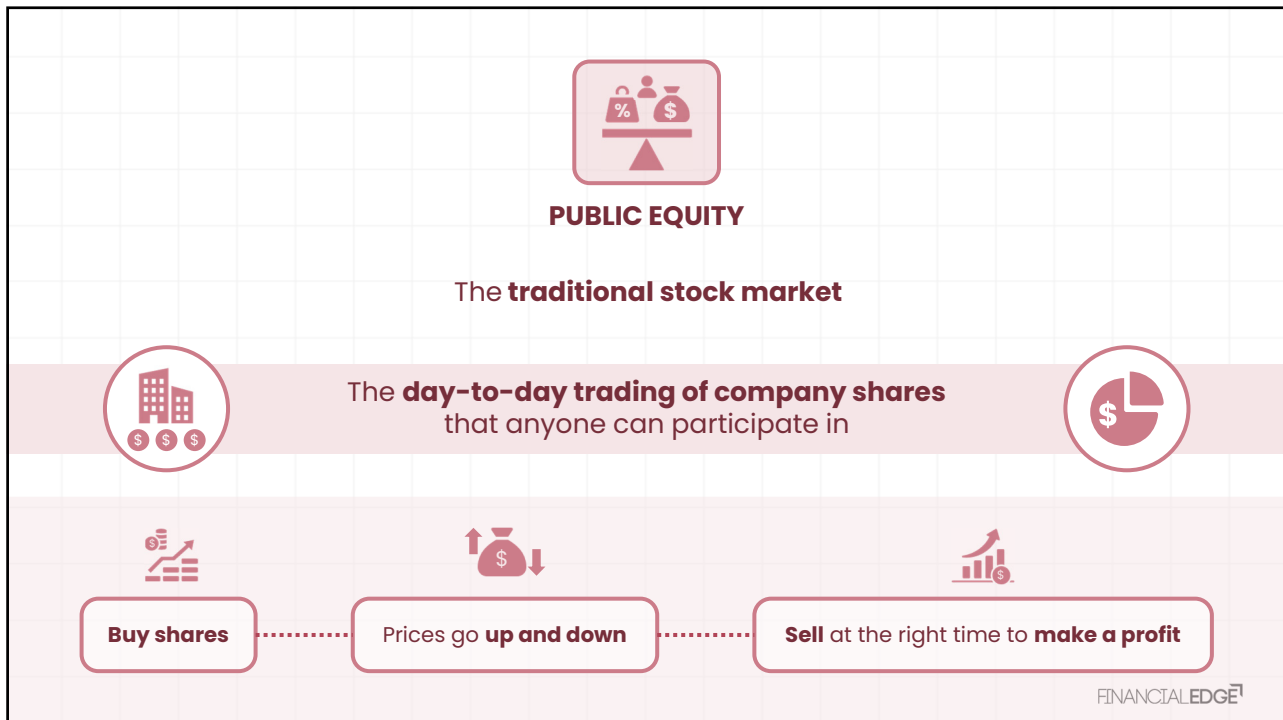


## PRIVATE EQUITY



## PUBLIC EQUITY

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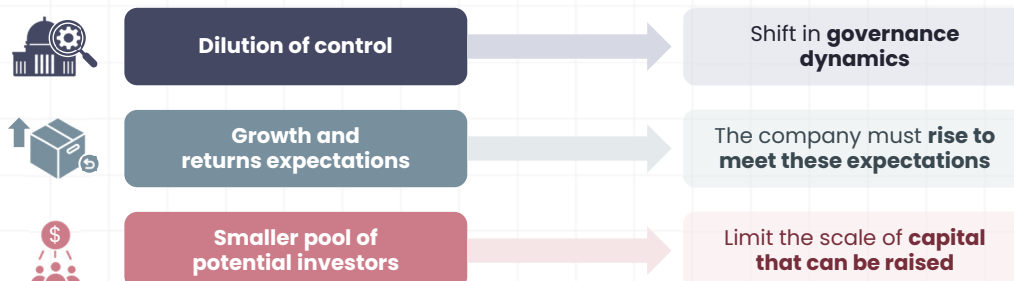
## The Issuer's Perspective – Private Equity

### Advantages

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## The Issuer's Perspective – Private Equity

### Considerations



For issuers, private equity can be a **powerful mechanism for funding**, offering a **combination of capital and strategic partnership**

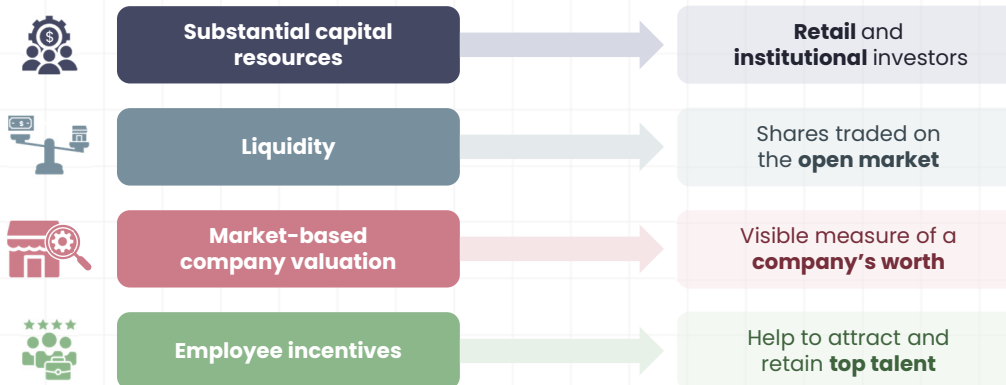
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# The Issuer's Perspective – Private vs. Public Equity – Part 2

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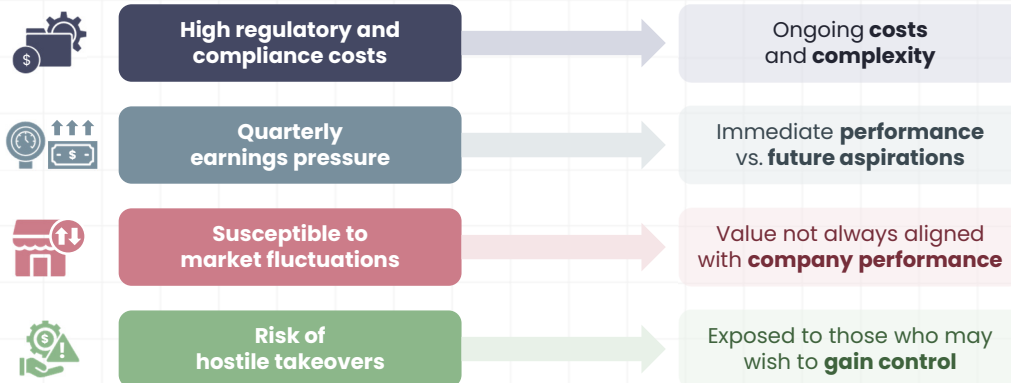
## The Issuer's Perspective – Public Equity

### Advantages

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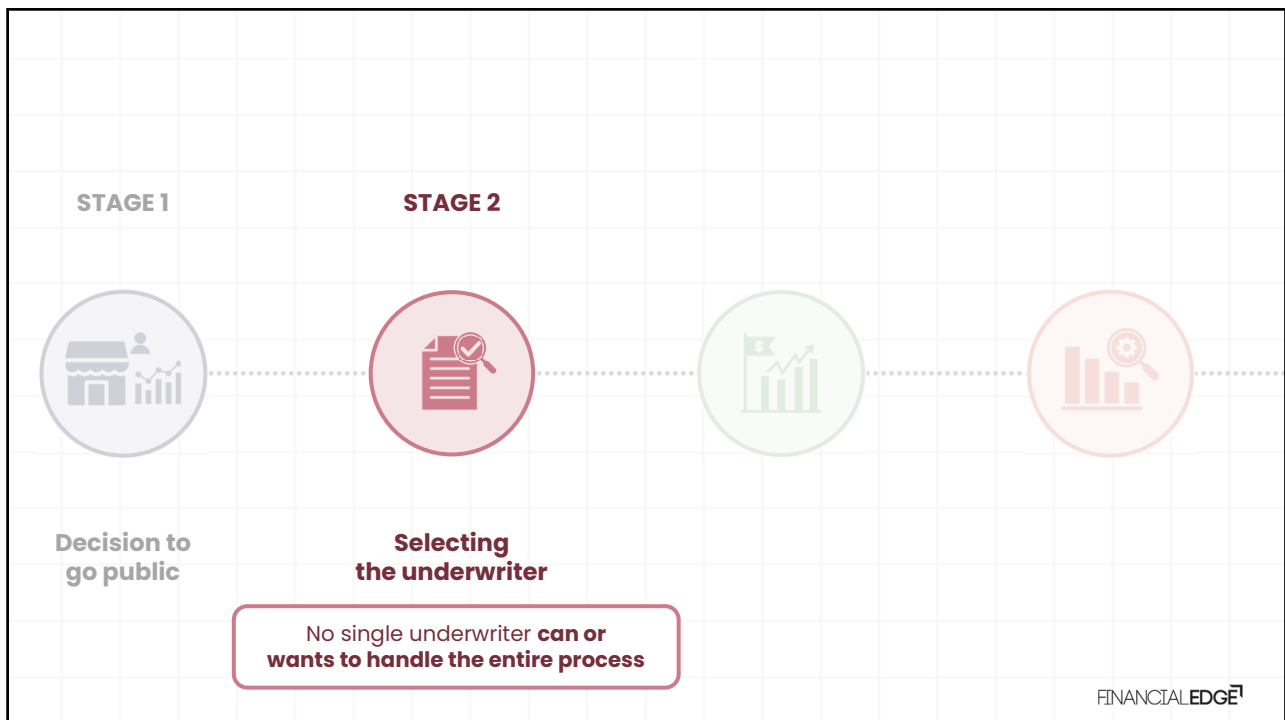
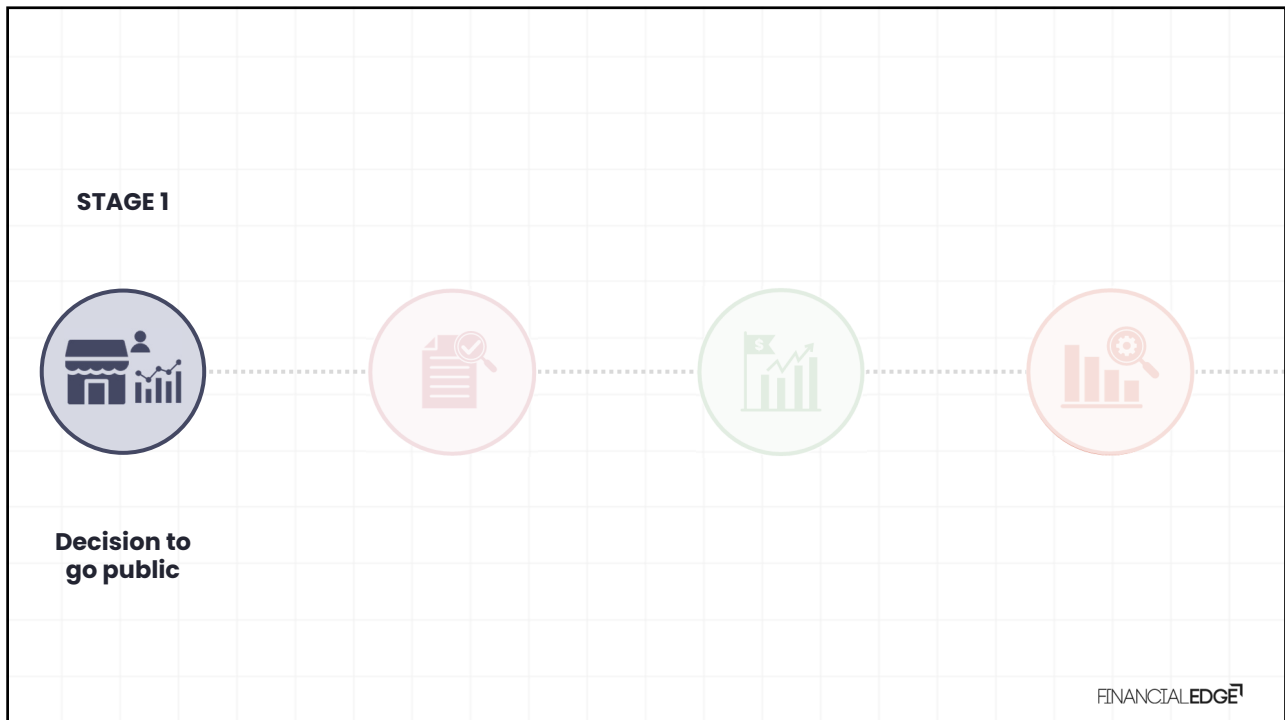
## The Issuer's Perspective – Public Equity

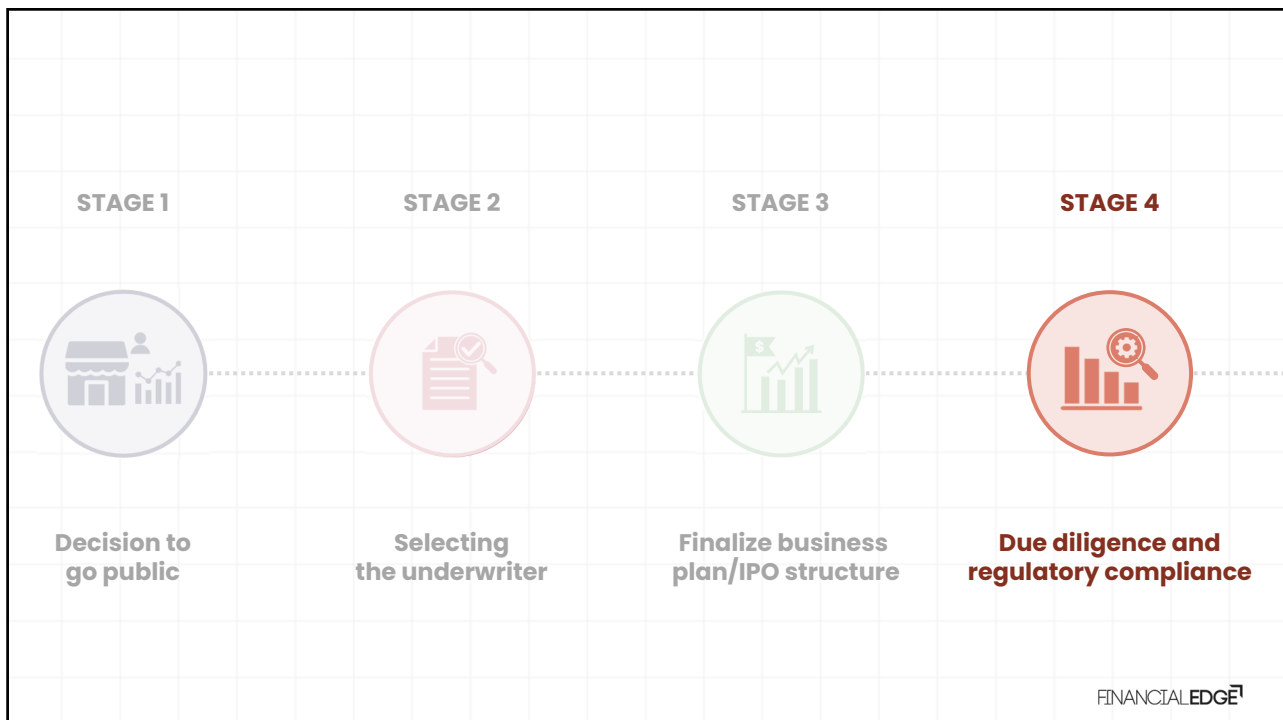
### Considerations

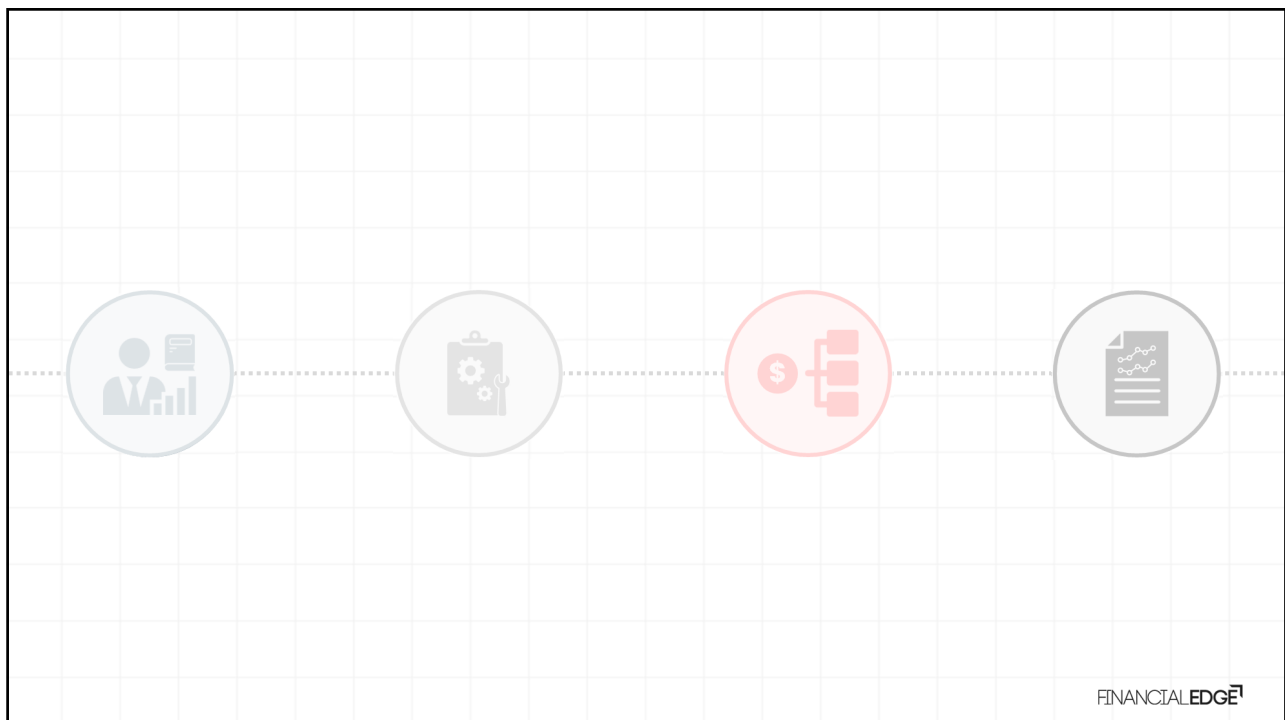
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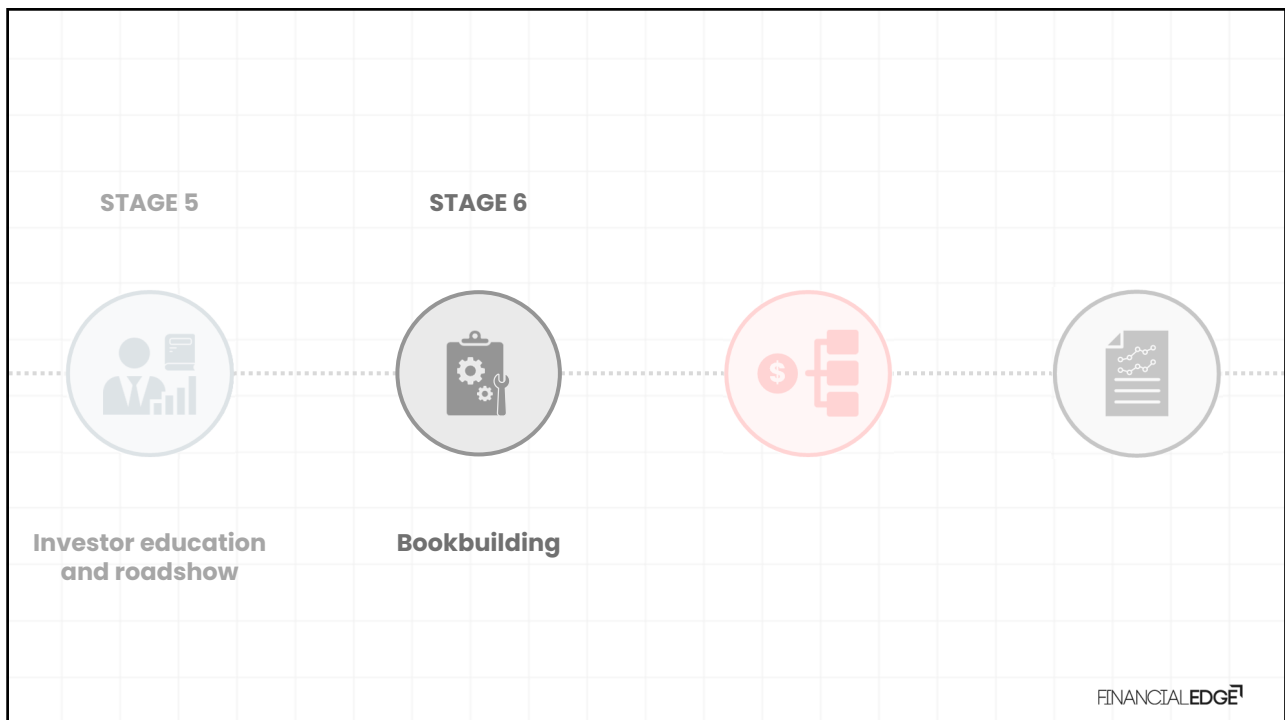
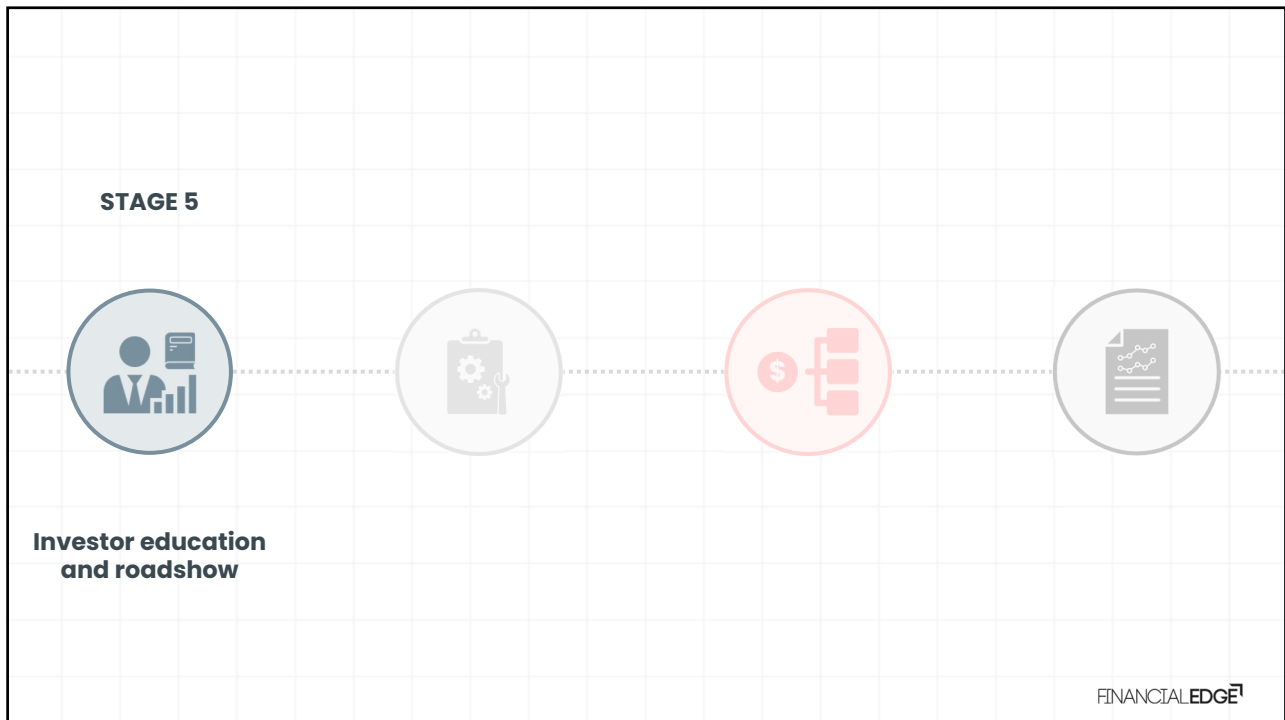
## The IPO (Initial Public Offering) Process

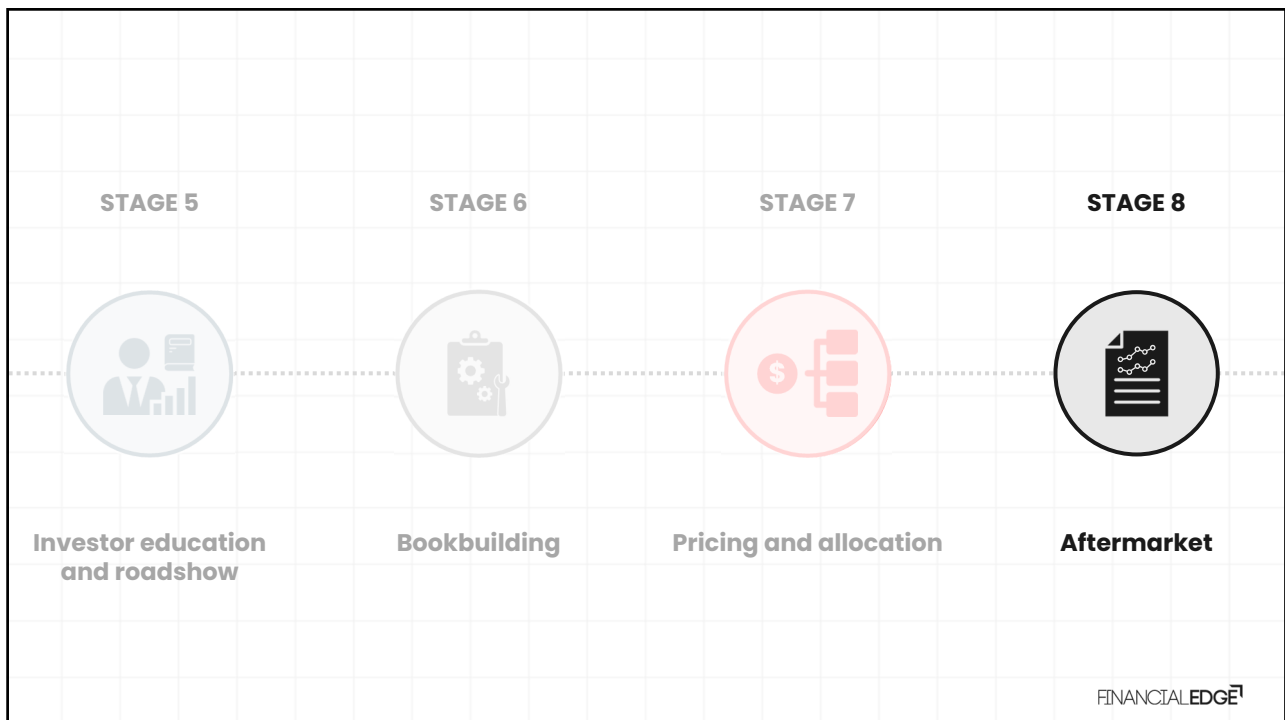
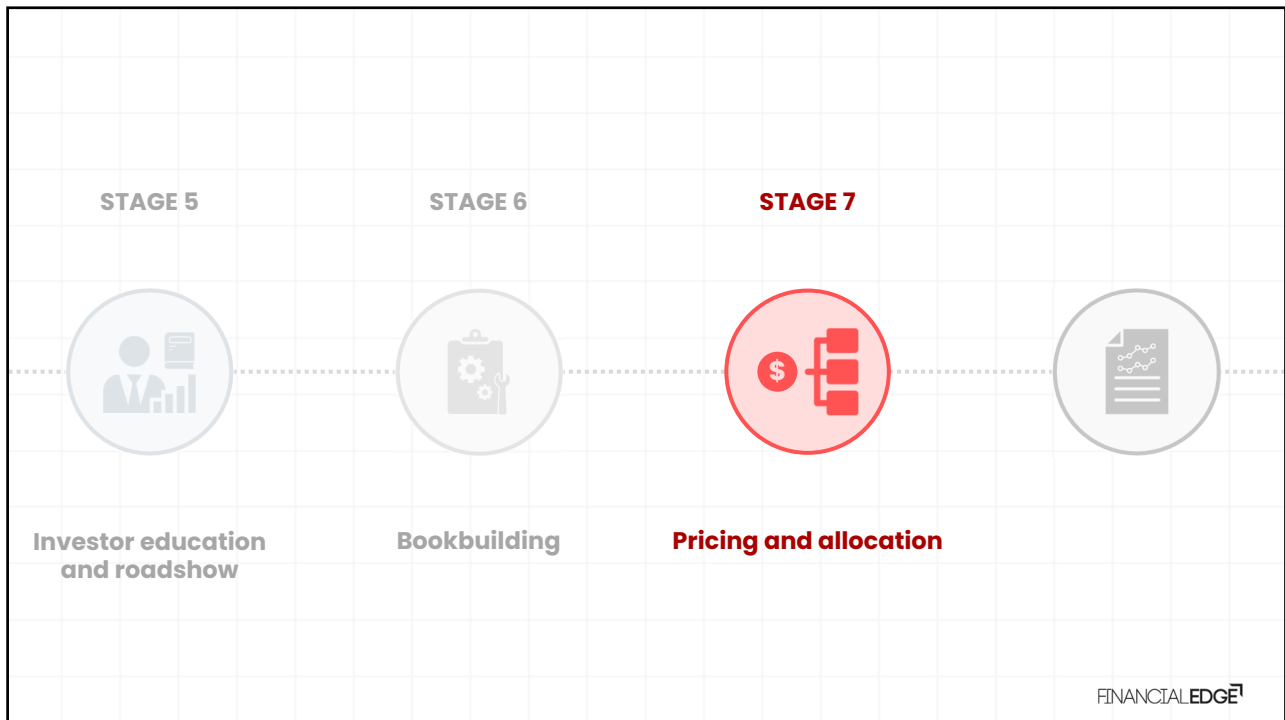
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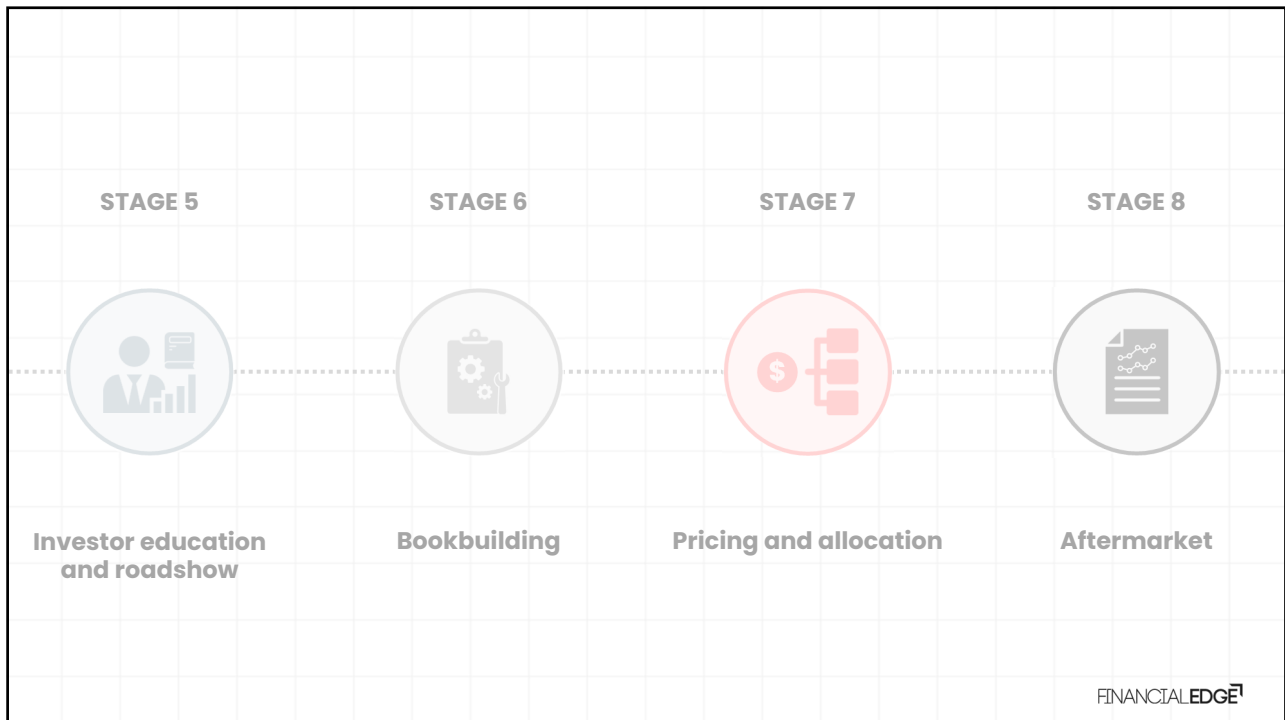


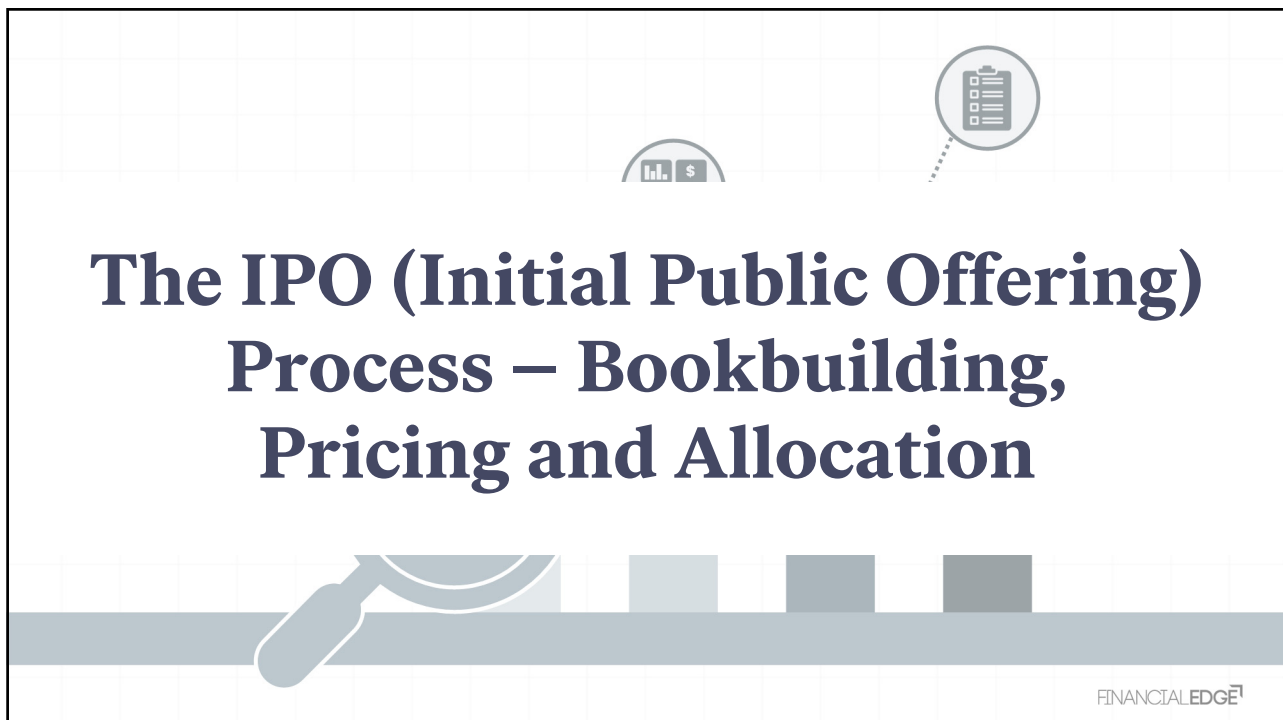
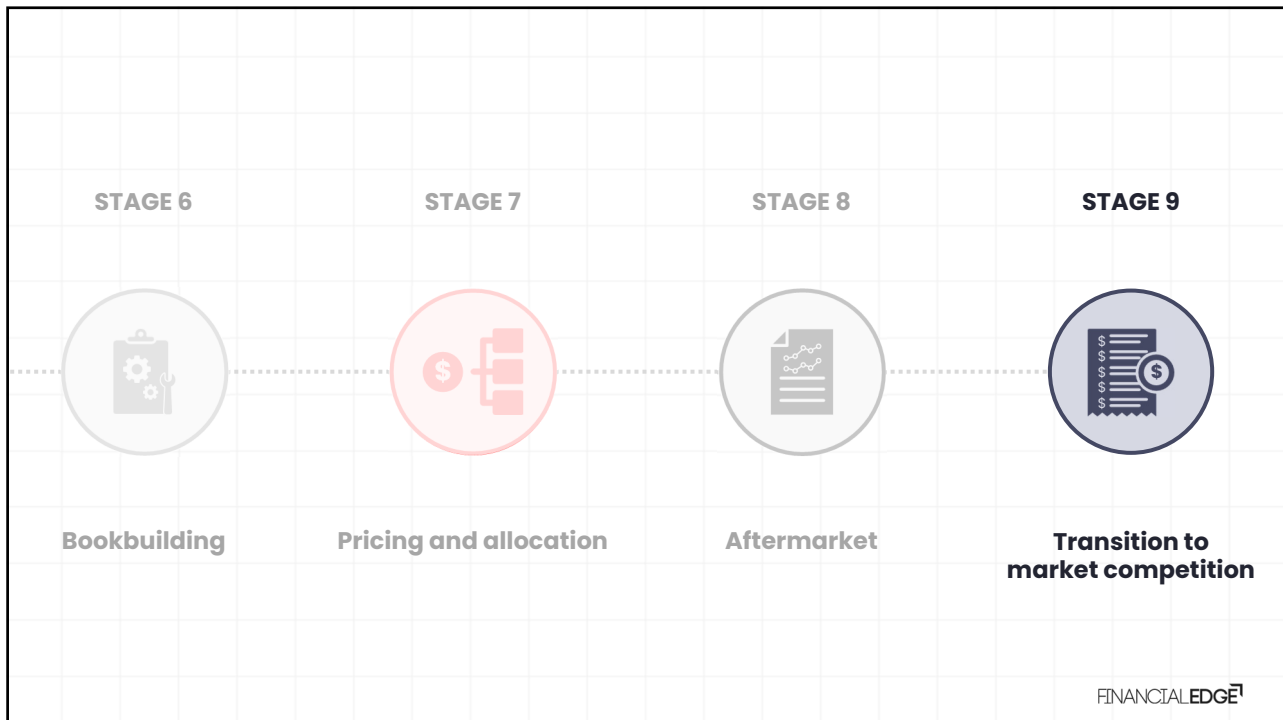












## Bookbuilding



Underwriters gauge **interest** and **appetite** from potential investors



Bookbuilding phase



They create a 'book' where they note who wants to **buy shares** and at what price

Understanding the **commitment level** of potential investors



Bids are **non-binding**



Certain level of **expectation** set

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## Bookbuilding



Underwriters gauge **interest** and **appetite** from potential investors



Bookbuilding phase



They create a 'book' where they note who wants to **buy shares** and at what price



Risk of non-binding bids is that the **interest won't convert into actual sales**



Underwriters continuously **adjust their strategy**

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## Bookbuilding



Underwriters gauge **interest** and **appetite** from potential investors



Bookbuilding phase



They create a 'book' where they note who wants to **buy shares** and at what **price**

1

Issue an **initial price range** for the shares

2

Investors then start to **place their bids**

3

Underwriters collect the data, and create a **"book" of potential investors**

4

Gauge the market **demand** and refine the final **price range**

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## Pricing and Allocation



Setting the final offer price



Pricing and allocation phase



Based on **feedback** received during bookbuilding

The shares are distributed to the **investors who placed bids**



Size of the **bid**



Investor's relationship with the **bank**



**Long-term** investment vs quick **sell-off** for a **profit**

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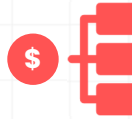
## Pricing and Allocation



Setting the final  
offer price



Based on **feedback received**  
during bookbuilding



**Pricing and  
allocation phase**

**1**

Investment bank **reviews all bids**  
and **classifies the investors**

**2**

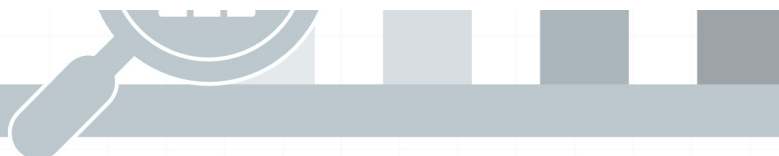
**Allocate the shares** (what they bid for  
might differ from what they receive)

**Successful first trading day**

**Satisfy the company & investors**

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## The IPO (Initial Public Offering) Process – Overallotment (Greenshoe) Option



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## Overallotment Option (Greenshoe Option)

Company has set its **IPO price**



AT  
**\$5**  
PER SHARE



An announced issue



OF  
**60**  
MILLION SHARES



In the event of enthusiastic **market reception**



Share prices **climb** to  
**\$6**  
PER SHARE



**Greenshoe option**

Obtain **9 million overallocated shares** from the company at **\$5**

**69**  
MILLION SHARES  
AT  
**\$5**  
PER SHARE

Additional **9 million shares**

An **overallotment of 15%**

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## Overallotment Option (Greenshoe Option)

Company has set its **IPO price**



AT  
**\$5**  
PER SHARE



An announced issue



OF  
**60**  
MILLION SHARES



Share price **decreases**



TO  
**\$4**  
PER SHARE



**Greenshoe option**

**60**  
MILLION SHARES  
AT  
**\$5**  
PER SHARE

Additional **9 million shares**

An **overallotment of 15%**

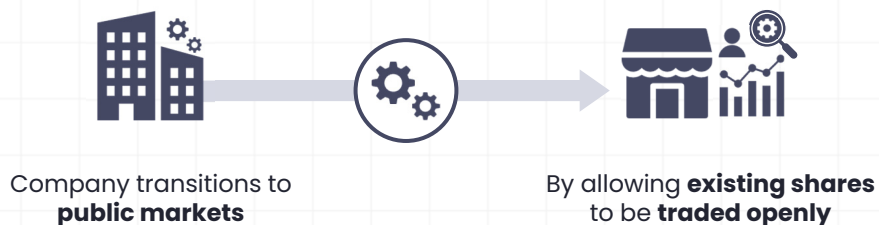
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# Direct Listing

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## Direct Listing

Provides a distinctive avenue for companies **seeking to enter the public domain**



The price of shares is not established in advance but is instead left to be determined by **market forces on the day of the listing**

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## Why choose an **advisor** in a **direct Listing**?



### Navigating Regulatory Complexities

An advisor can provide guidance through this intricate landscape, ensuring that **all legal and regulatory standards are met**



### Market Preparation and Positioning

This involves communicating the **company's value** proposition to **potential investors and market participants**



### Shareholder Coordination

Current shareholders are key players as they will be **directly selling their holdings to the public**

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The pricing is determined by **pure market forces** on the **day the company goes public**



How the **mechanism typically works:**



### The stock exchange

Collects **buy** and **sell orders**



### Opening price

Determined through a **price discovery** process sometimes referred to as **opening auction**

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## Why choose a **direct listing** over an **IPO**?



### Direct listing

Can be a strategic choice for a company that prides itself on **stability** and does **not seek additional capital**



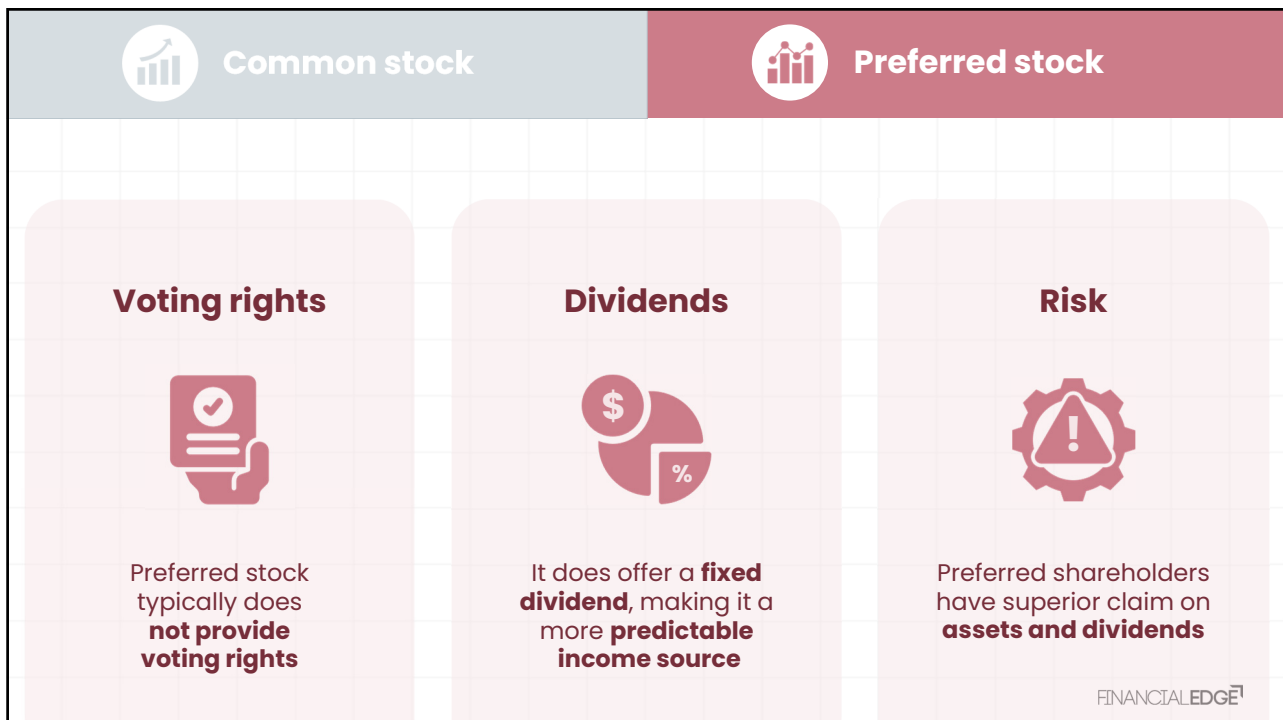
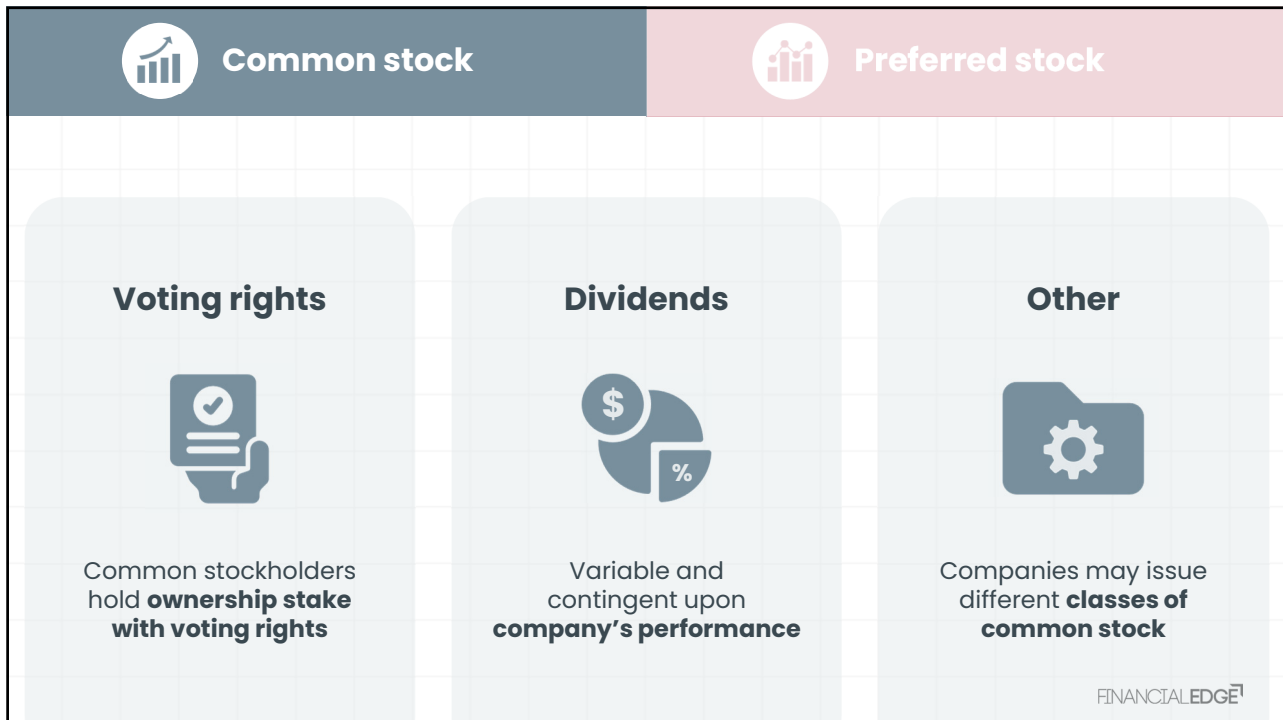
### IPO

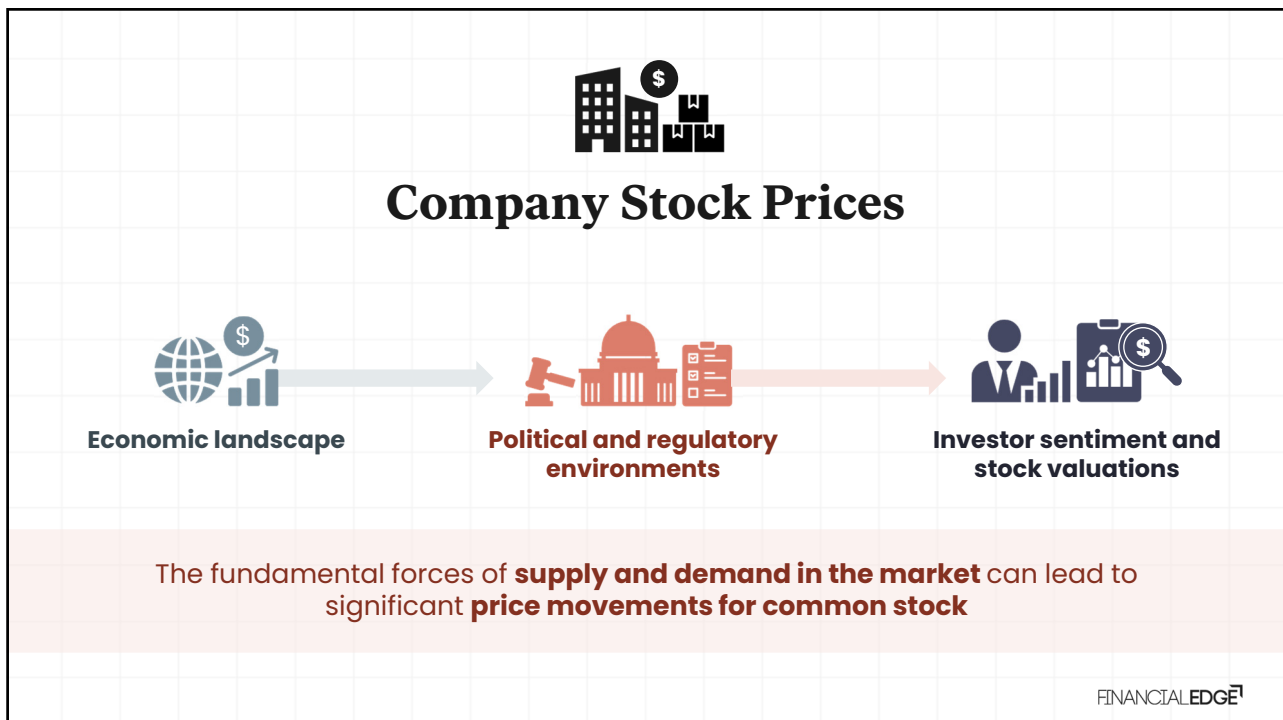
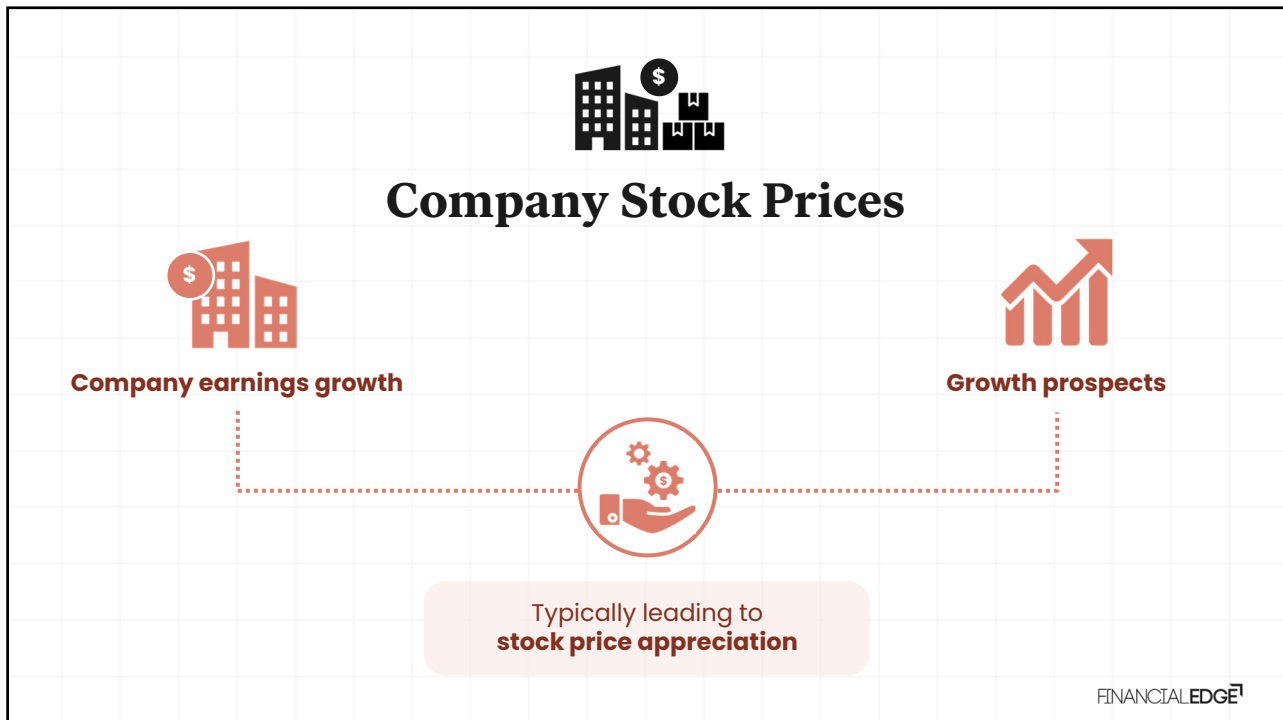
A more conventional route, offering a structured introduction to the market with a more **controlled pricing mechanism**, aimed at **attracting new investors** through the issuance of **new shares**

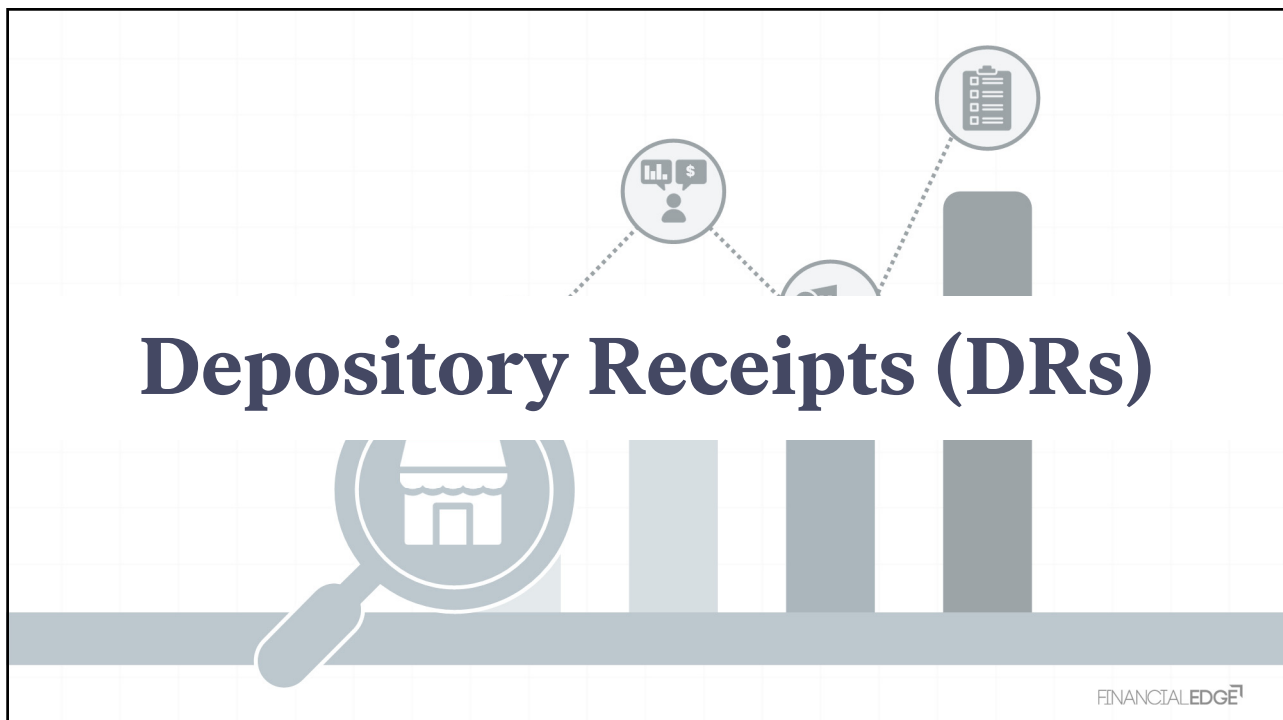
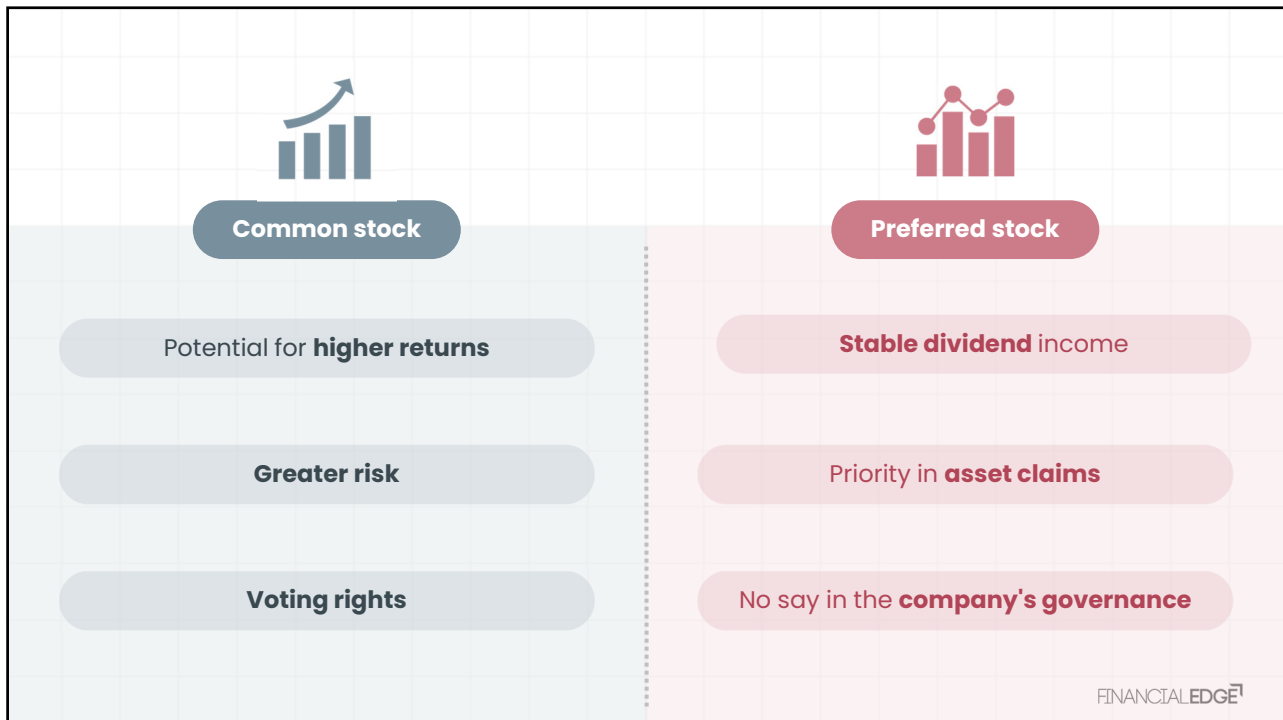
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## Common Stock vs. Preferred Stock

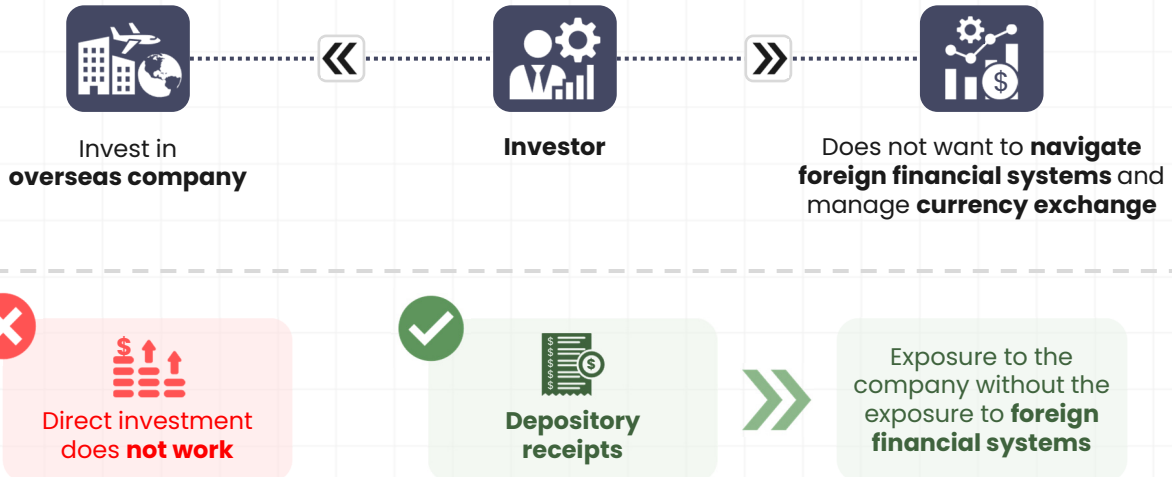
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## Global Investment Opportunities

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## American Depositary Receipts (ADRs)



Represent a specified **number of shares** of a **foreign company's stock**



Quoted and transacted in **U.S. dollars**



Distribute dividends, these are conveniently **paid out in U.S. dollars**



Depository receipts are **not exempt from regulation**

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## ADR Issuance



Foreign company



Domestic banks

1



Company agrees to tap into the **US investor base**

2



Enters into formal agreement with **US depository bank**

3



Foreign company **deposits the agreed portion** of its shares

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## ADR Issuance



Foreign company



Domestic banks

4



**US depository bank** issues ADRs

5



ADRs are **sold in the stock market**

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## Advantages of **ADRs** for the **foreign company**



**Simplicity and  
Cost-Efficiency**



**Calibrated  
Exposure**



**Flexibility**

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## The Global Public Equity Market

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## Size of the **Global Public Equity Market**

**Global  
Equity Market**  
2022



**\$101.2TN**

**US  
Equity Market**  
2022



**\$40.3TN**

**Chinese  
Equity Market**  
2022



**\$11.4TN**

**EU  
Equity Market**  
2022



**\$11.0TN**

Source: 2023 Capital Markets Fact Book, Securities Industry and Financial Markets Association (SIFMA), July 2023

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## Size of the **Global Public Equity Market**

**The US dominates the  
global equity landscape**



Due to the **depth, liquidity and efficiency**  
of US capital markets

**Ripple effects** impacting financial markets and  
investment climates internationally

US markets serve as a barometer for  
**global financial health**

A compass for **navigating** the intricate **world of investments**

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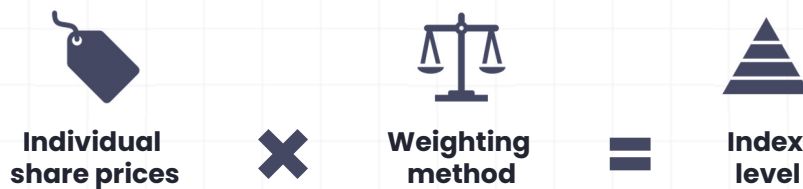


# What is an Equity Index?

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## What is an Equity Index?

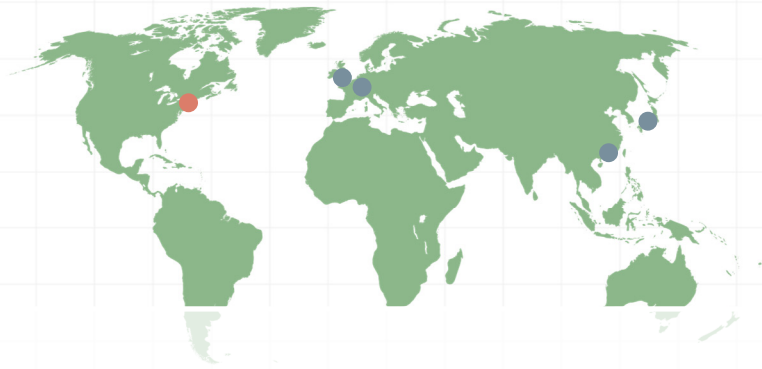
An equity index is simply a way of **expressing the total “level” of the market**



The index level will depend not only on the **performance of the shares** but on the **weighting methodology**

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Indices represent a given **security market segment** or **asset class**



- US
- INTERNATIONAL
- OTHER
- Sector/Industry Specific
- Style Specific
- Total Return
- Multi-market

## Equity Index Weightings



## Equity Index Weightings – Market Cap Weighted

Based on Size of the Firm

S&P 500 , Nasdaq and FTSE

$$\text{Weighting} = \frac{\text{Value of company}}{\text{Value of all companies}}$$

**MOST COMMON**

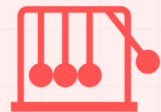


### Advantage

Weighting in proportion with **company value**

### Disadvantage

**Momentum driven**



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## Equity Index Weightings – Price Weighted

Dow Jones Industrial

$$\text{Weighting} = \frac{\text{Stock price of company}}{\text{Sum of stock prices of all companies}}$$

**NOT COMMON ANYMORE**



### Advantage

Simple to **calculate, understand, and create**

### Disadvantage

Higher priced stocks have **greater impact**



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## Equity Index Weightings – Equal Weighted

S&P 500 Equal  
Weight Index

$$\text{Weighting} = \frac{1}{\text{Number of shares in index}}$$

SAME LEVEL OF INFLUENCE FOR ALL



### Advantage

Simple  
Highly diversified

### Disadvantage

Require more  
frequent re-balancing  
Large turnover



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## Equity Index Weightings – Fundamentally Weighted

Weight based on fundamental  
metric(s) – not price

**Examples**  
Dividend yield, volatility,  
economic exposure

SMART BETA STRATEGIES



### Advantage

Contrarian effect

### Disadvantage

Requires more **data**



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# Main Global Equity Indexes

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| Name                                | Universe                 | Weighting | # stocks |
|-------------------------------------|--------------------------|-----------|----------|
| <b>S&amp;P 500</b>                  | NYSE, NASDAQ             | Mkt Cap   | 500      |
| <b>NASDAQ composite</b>             | NASDAQ                   | Mkt Cap   | 3,000+   |
| <b>Dow Jones Industrial Average</b> | NYSE, NASDAQ             | Price     | 30       |
| <b>Euro Stoxx 50</b>                | Eurozone                 | Mkt Cap   | 50       |
| <b>DAX</b>                          | Frankfurt Stock Exchange | Mkt Cap   | 40       |
| <b>CAC 40</b>                       | Euronext Paris           | Mkt Cap   | 40       |
| <b>FTSE 100</b>                     | London Stock Exchange    | Mkt Cap   | 100      |
| <b>Nikkei 225</b>                   | Tokyo Stock Exchange     | Price     | 225      |
| <b>TOPIX</b>                        | Tokyo Stock Exchange     | Mkt Cap   | c.2000   |
| <b>Hang Seng</b>                    | Hong Kong Stock Exchange | Mkt Cap   | 82       |

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# Free Float Market Cap

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## Free Float Market Capitalization Approach

1 MILLION

SHARES

300,000

SHARES

\$10

SHARE PRICE

Trading in the  
public domainFree float  
market cap  
= \$3 MILLION

Companies with a **substantial free float** have a greater influence on the **index's performance**

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## Free Float Market Capitalization Approach

Focus on **shares** that are **readily tradable**



Offers a more accurate reflection of **market liquidity**

### Global norm for major indices



Free float market cap indices better **mirror market dynamics and liquidity**

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## The S&P 500

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## S&P 500 – Market Cap Weighted vs. Equal Weighted

The S&P 500 index stands as a **preeminent benchmark**, reflecting the **performance of leading US equities**



Largest companies



Hold the majority of **market value**



Index **highly sensitive** to largest companies



A **market cap weighted index** can become skewed by its **largest constituents**

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## S&P 500 – Market Cap Weighted vs. Equal Weighted



**Gained 23%**

### S&P 500:

Weight top 10 constituents: **31.6%**  
Weight largest constituent: **7.4%**

(Source: S&P Global, as of 30 November 2023)

### S&P 500 Equal Weighted:

Each company is allocated a **fixed weight of 0.2%**

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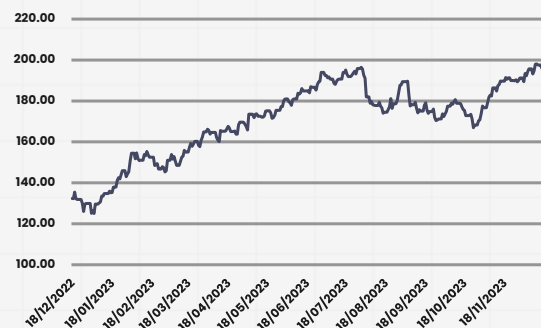
# Key Equity Metrics and Data Points

FINANCIALEDGE<sup>7</sup>**Apple Inc.****195.89** 18.12.2023**Estimates****2024FY**

EPS

6.61

Company's profitability

**EPS = Earnings Per Share**FINANCIALEDGE<sup>7</sup>

**Apple Inc.****195.89** 18.12.2023**Estimates****2024FY**

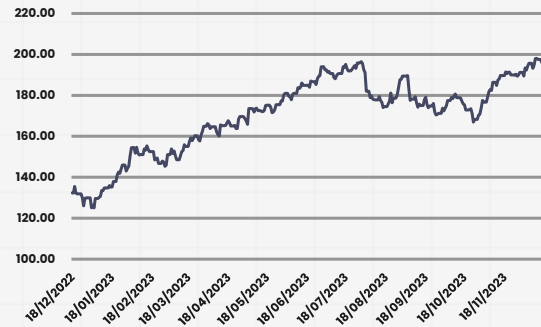
EPS

6.61

P/E

29.64

Compares the **current market price** of a **stock** to its **EPS**

**P/E = Price-to-Earnings**FINANCIALEDGE<sup>7</sup>**Apple Inc.****195.89** 18.12.2023**Estimates****2024FY**

EPS

6.61

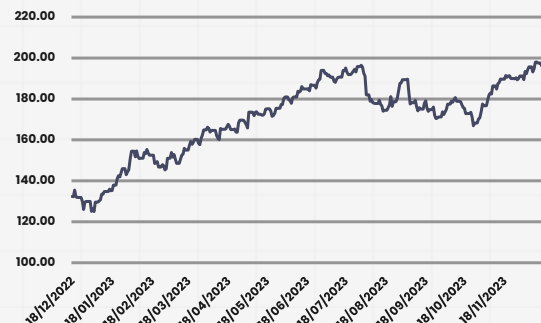
P/E

29.64

Dividend Yield

0.48%

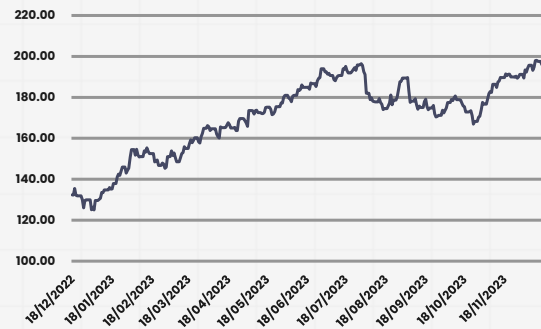
The percentage of a company's stock price that is paid out in **dividends over a year**

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**Apple Inc.****195.89** 18.12.2023**Volume in the stock market**

The total number of shares that have been **traded during a specific time period**, typically **one trading day**

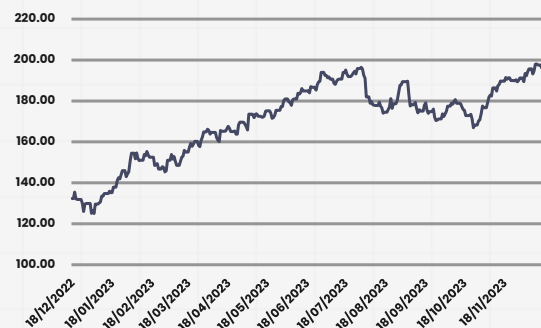
Investors often look at **average values**

FINANCIALEDGE<sup>7</sup>**Apple Inc.****195.89** 18.12.2023**Market data**

3-month average  
daily volume (in USD)

9,819,564,909

Smooth out the anomalies

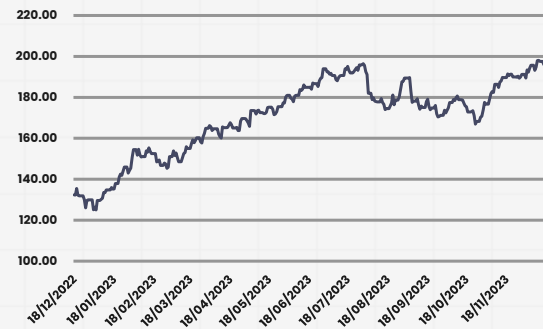
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**Apple Inc.****195.89** 18.12.2023**Market data**3-month average  
daily volume (in USD)

9,819,564,909

Market cap (capitalization)  
(in USD millions)

3,046,628.59

**Current stock price x number  
of shares outstanding**FINANCIALEDGE<sup>7</sup>**Apple Inc.****195.89** 18.12.2023**Market data**3-month average  
daily volume (in USD)

9,819,564,909

Market cap (capitalization)  
(in USD millions)

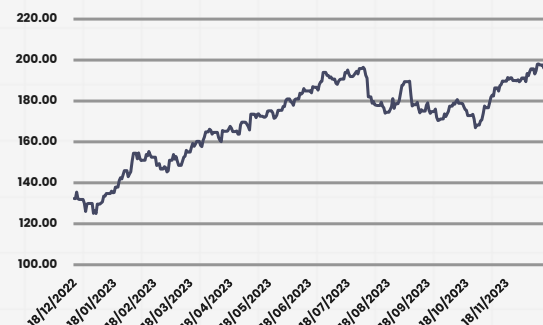
3,046,628.59

52 week price range

124.71 – 199.62

Last dividend (10/11/2023)

0.24 USD

FINANCIALEDGE<sup>7</sup>

## Why is Historical Price Data Important?



### Trend Identification

Looking at the price history, investors can identify **long-term trends**



### Volatility Assessment

Historical prices can show how much a **stock's price fluctuates**



### Performance Comparison

Investors can compare a **stock's past performance** to other stocks



### Technical Analysis

Traders use historical price data to **perform technical analysis** to identify future price movements

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## Market Capitalization Categories

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## Market Capitalization (Market Cap)

Serves as a key differentiator, grouping companies into **various categories** that reflect their **size and stability** within the market

Current stock price

Total number of shares outstanding

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## Market Capitalization (Market Cap) Categories

Mega Cap

Large Cap

Mid Cap

Small Cap

Micro-cap



Provides a useful framework for investment decisions

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