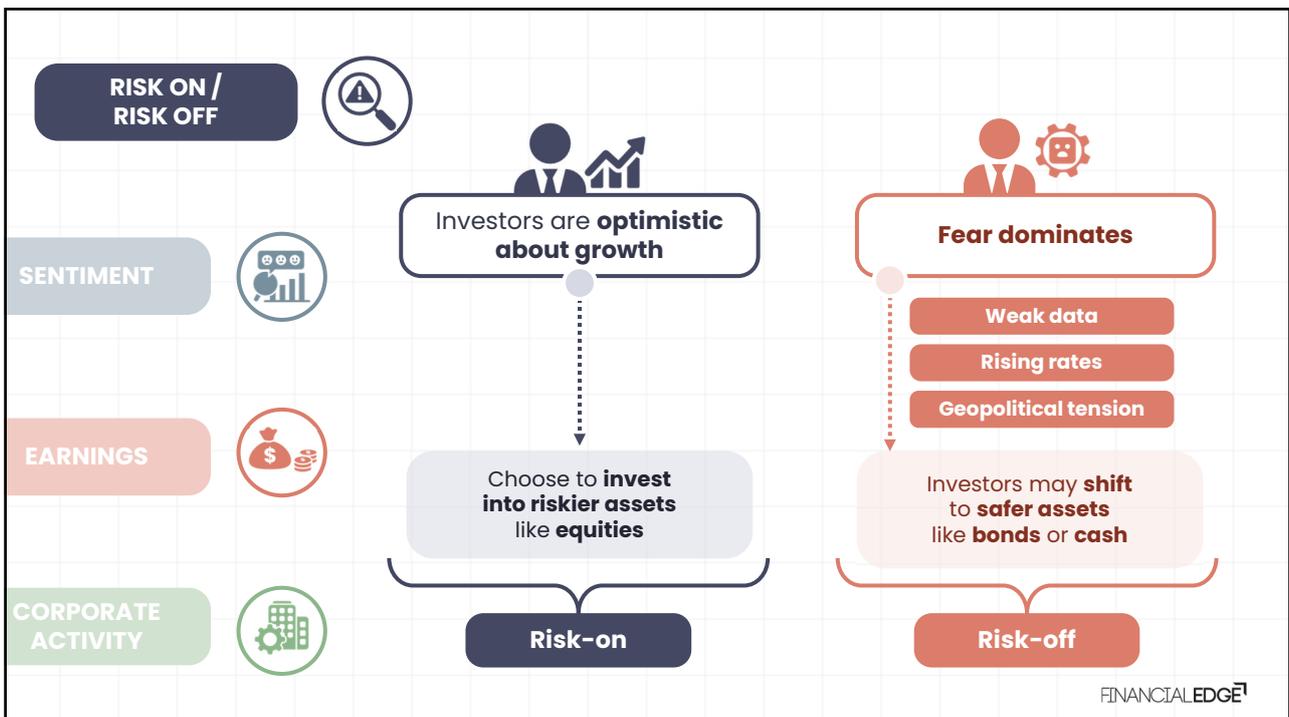
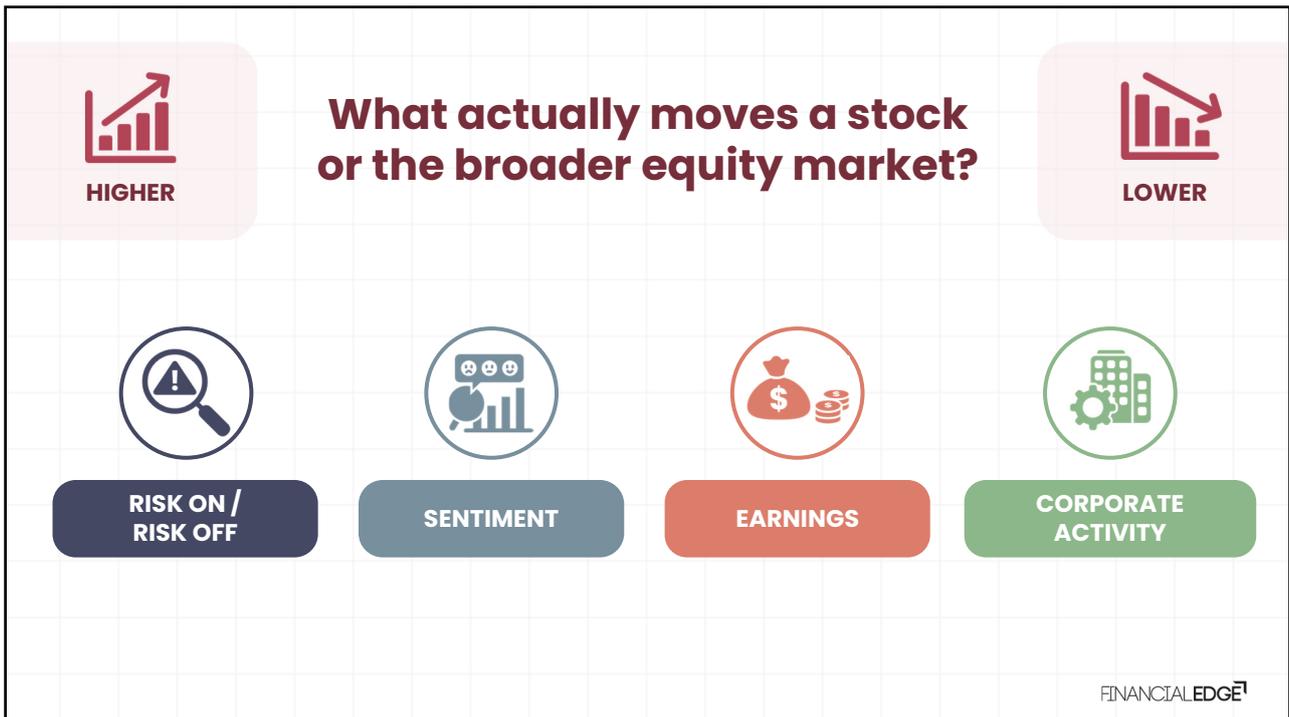


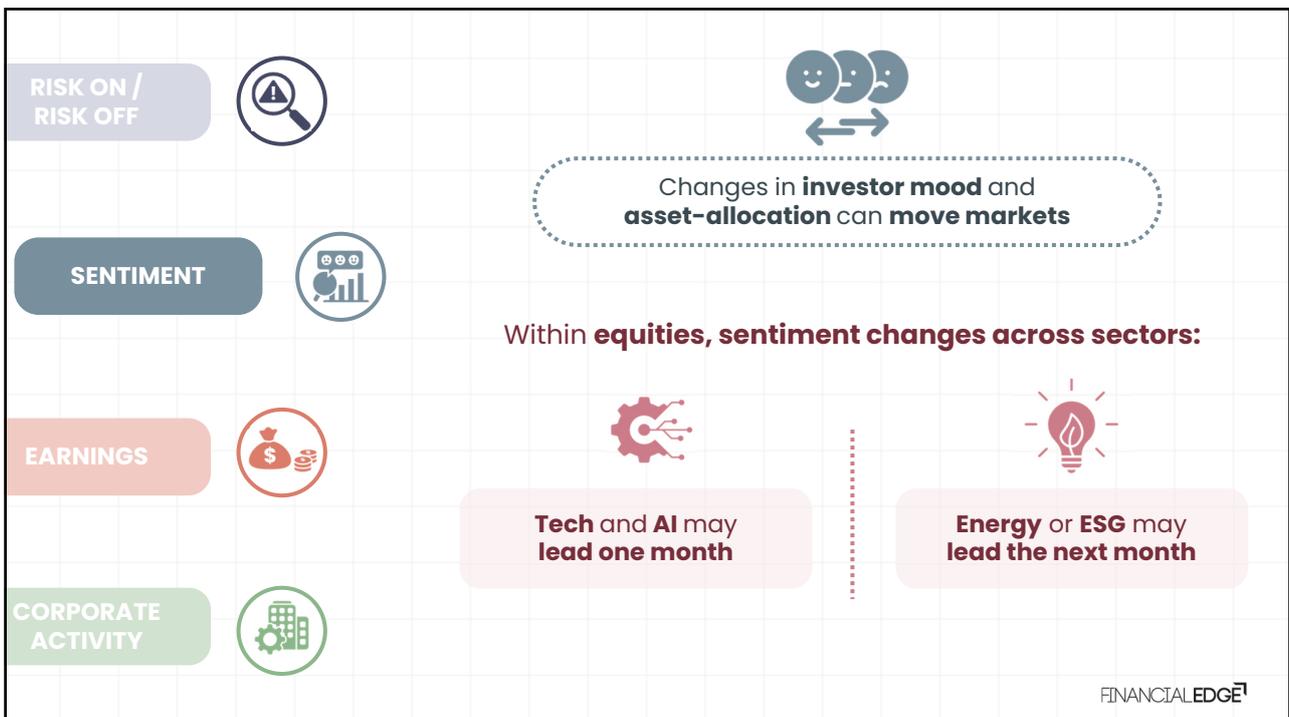
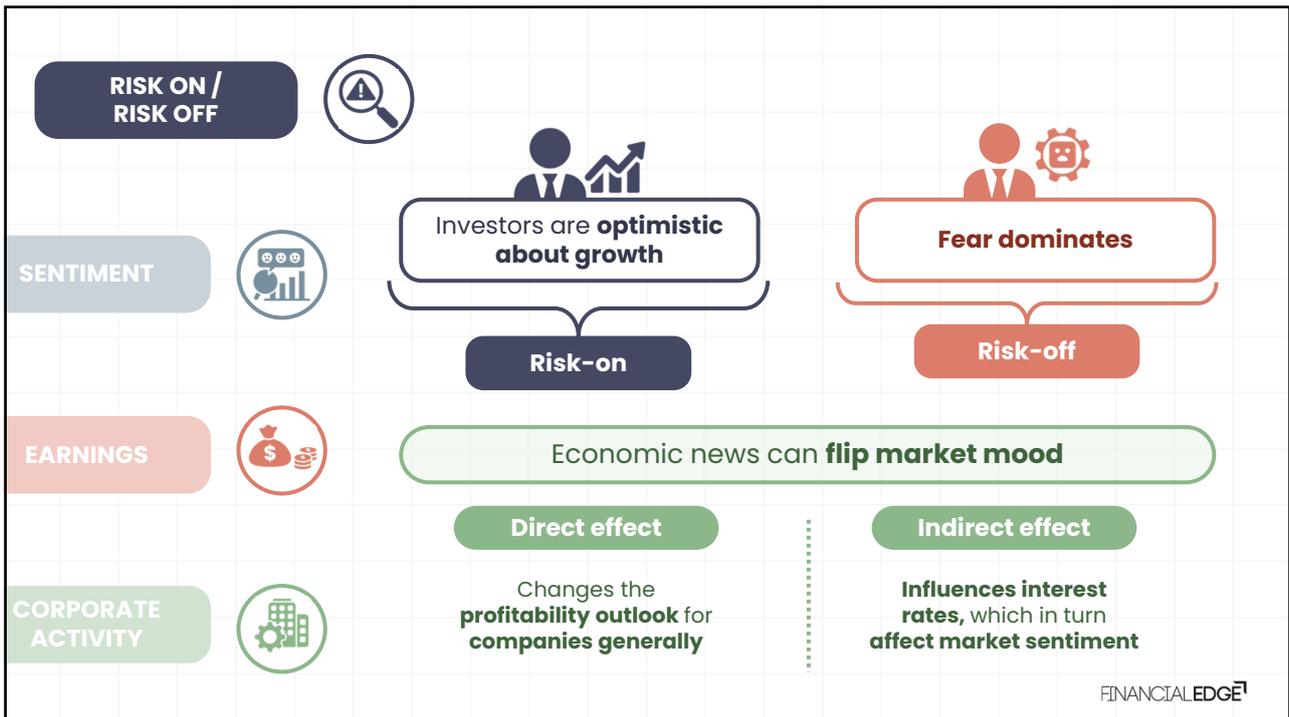


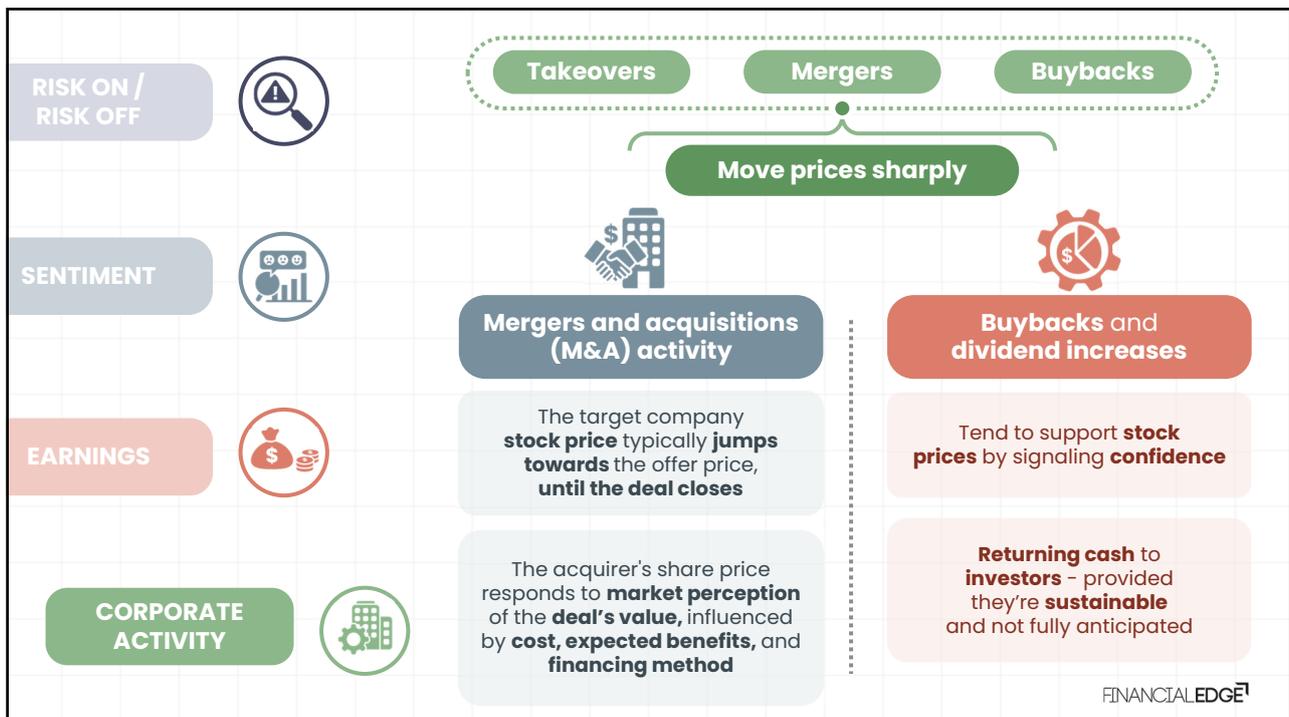
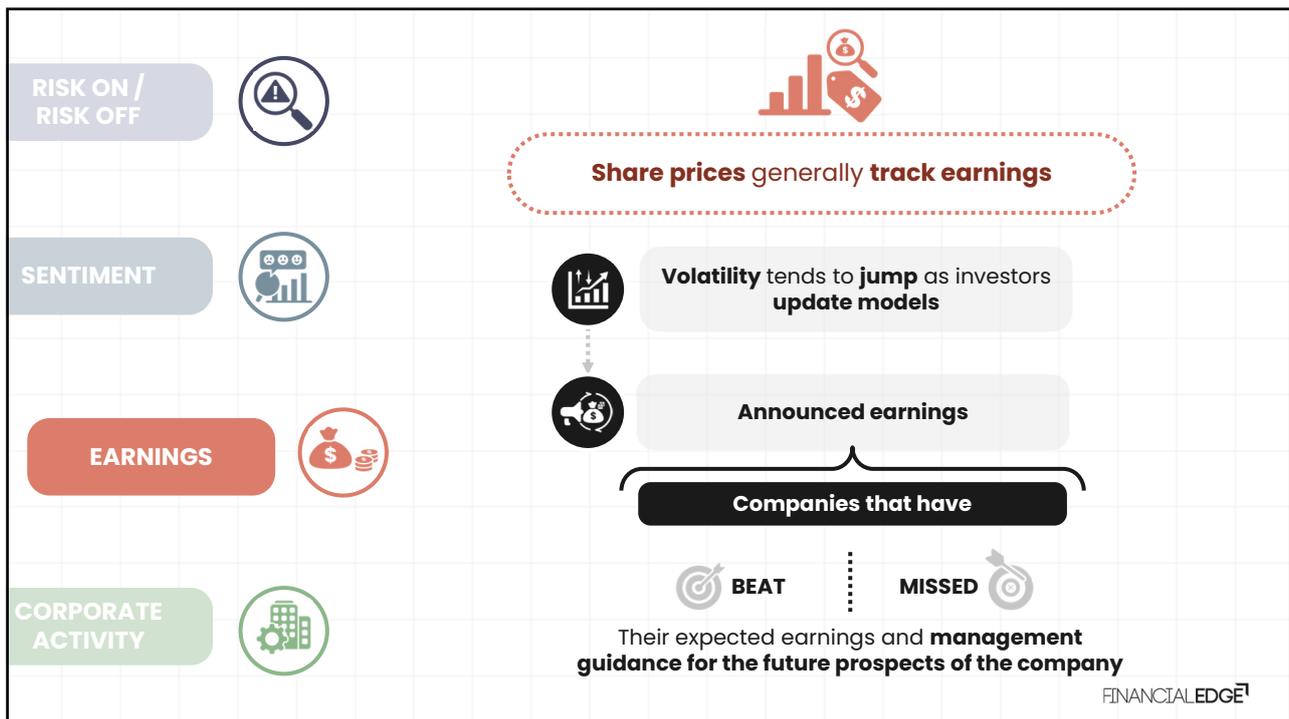
# Stock Market Essentials



## What Moves Equity?







# Number of Shares

FINANCIALEDGE<sup>1</sup>

## AUTHORIZED SHARES



**Maximum number of shares** a company is legally allowed to issue approved by its **shareholders**



**Acts** as a **ceiling set higher** than the **current number of shares in circulation**

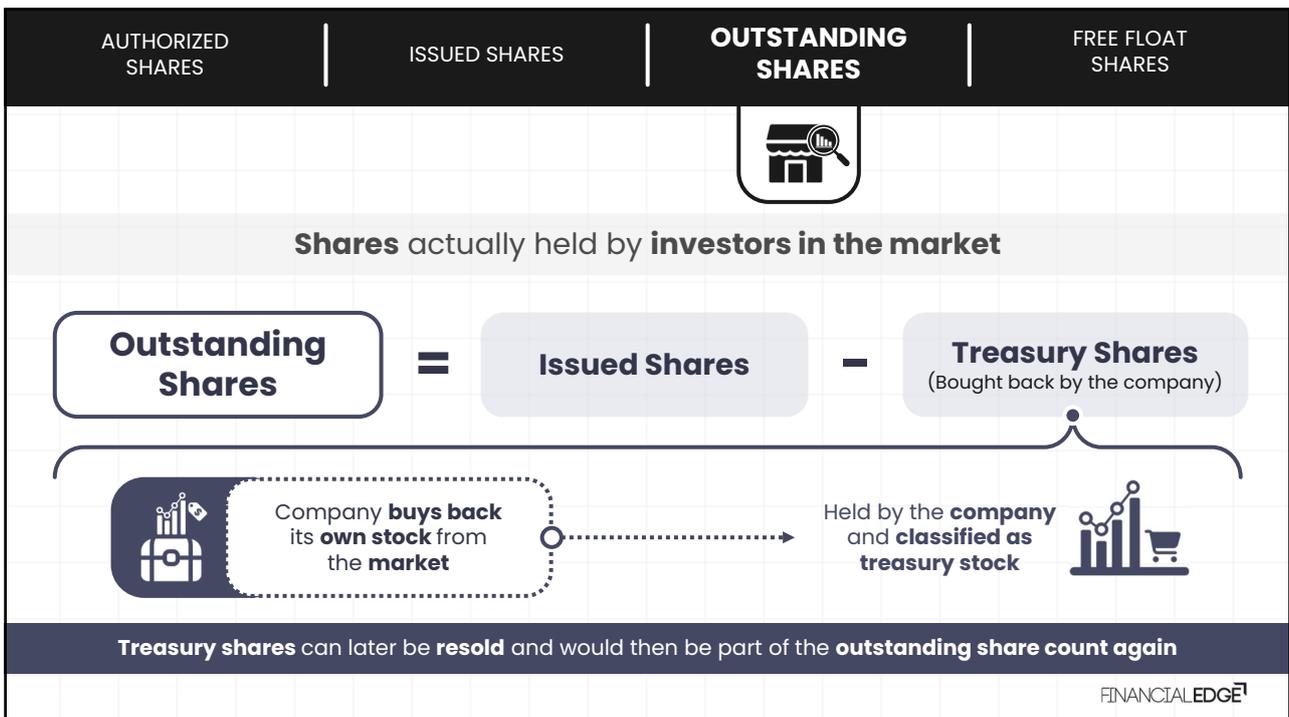
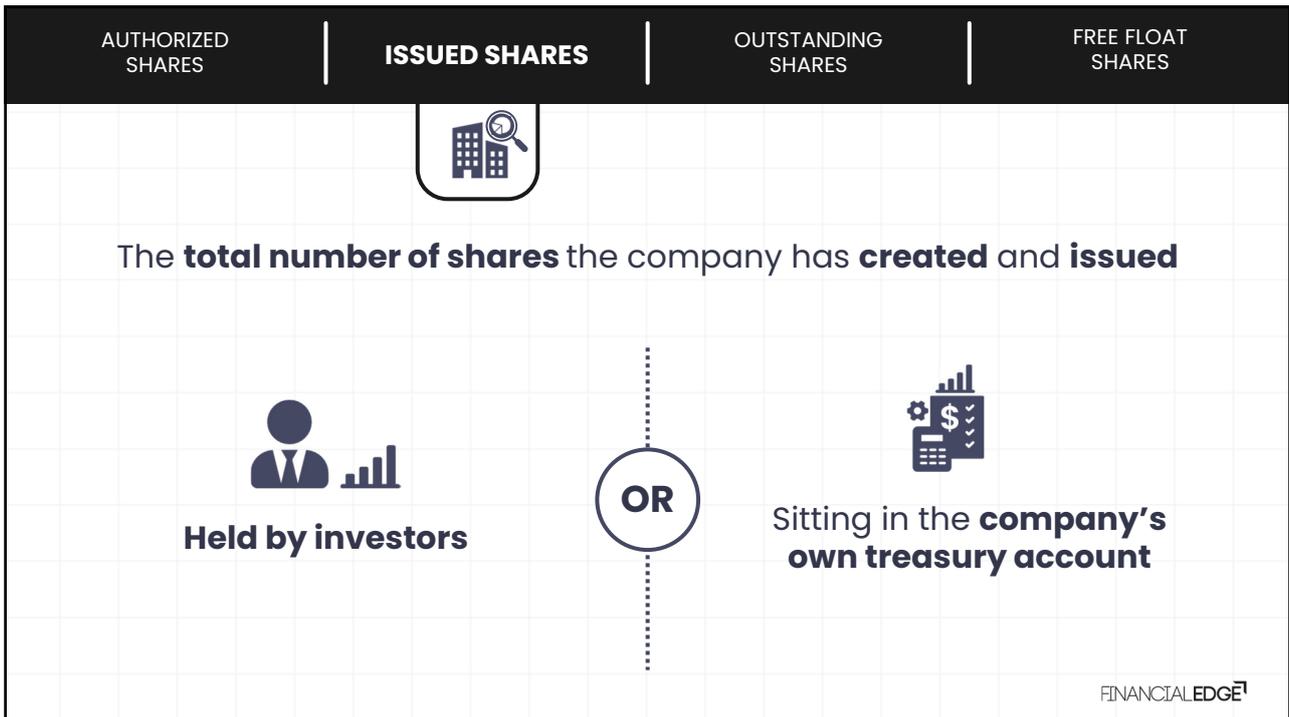


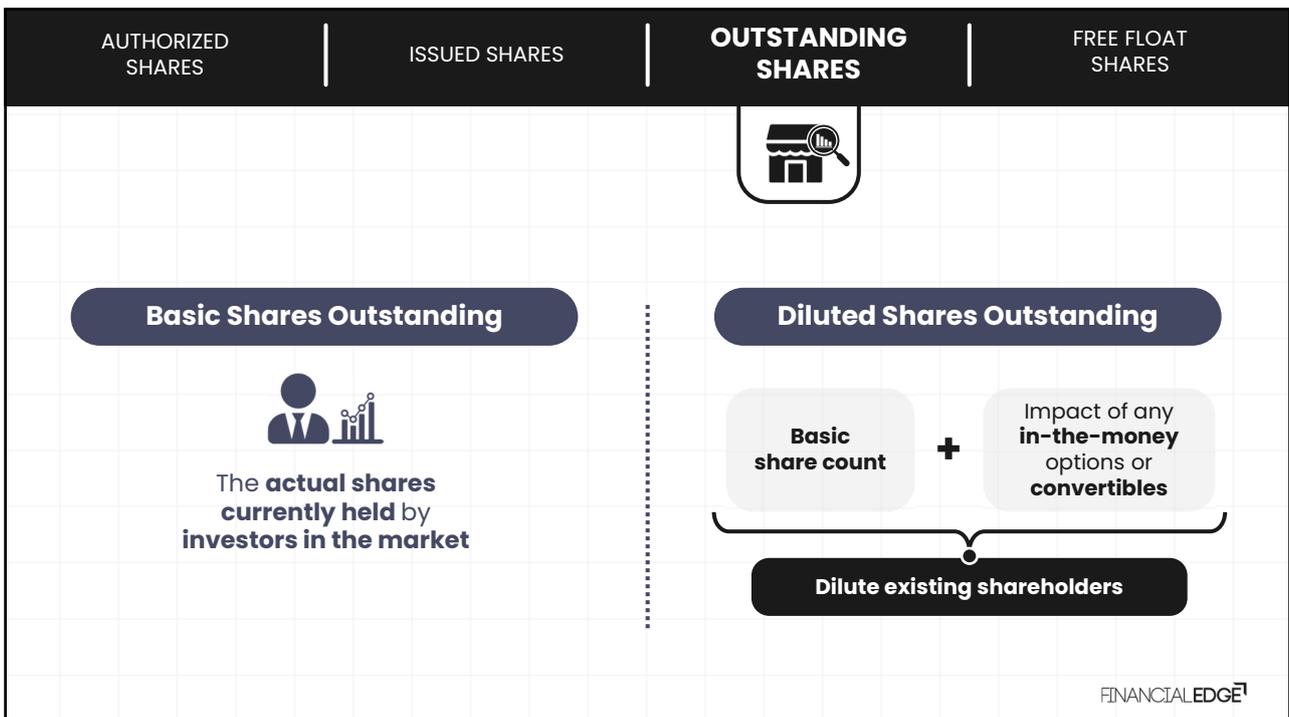
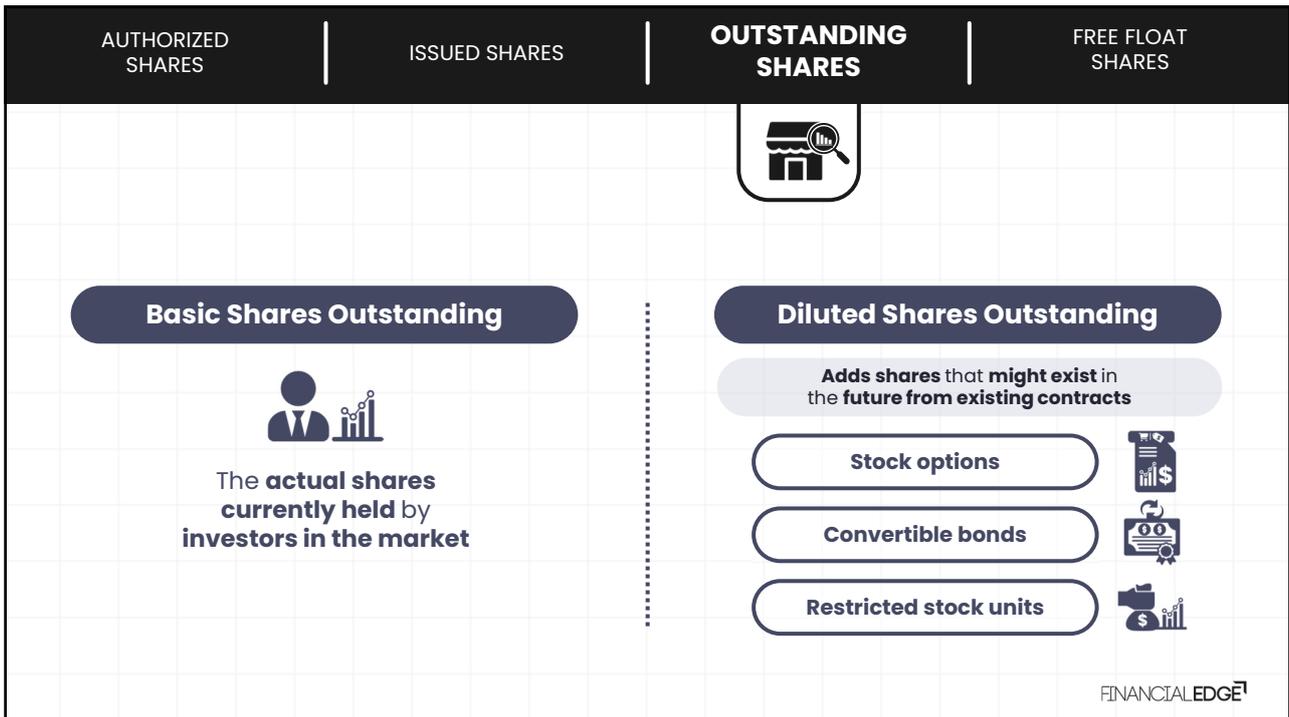
### IN SOME JURISDICTIONS

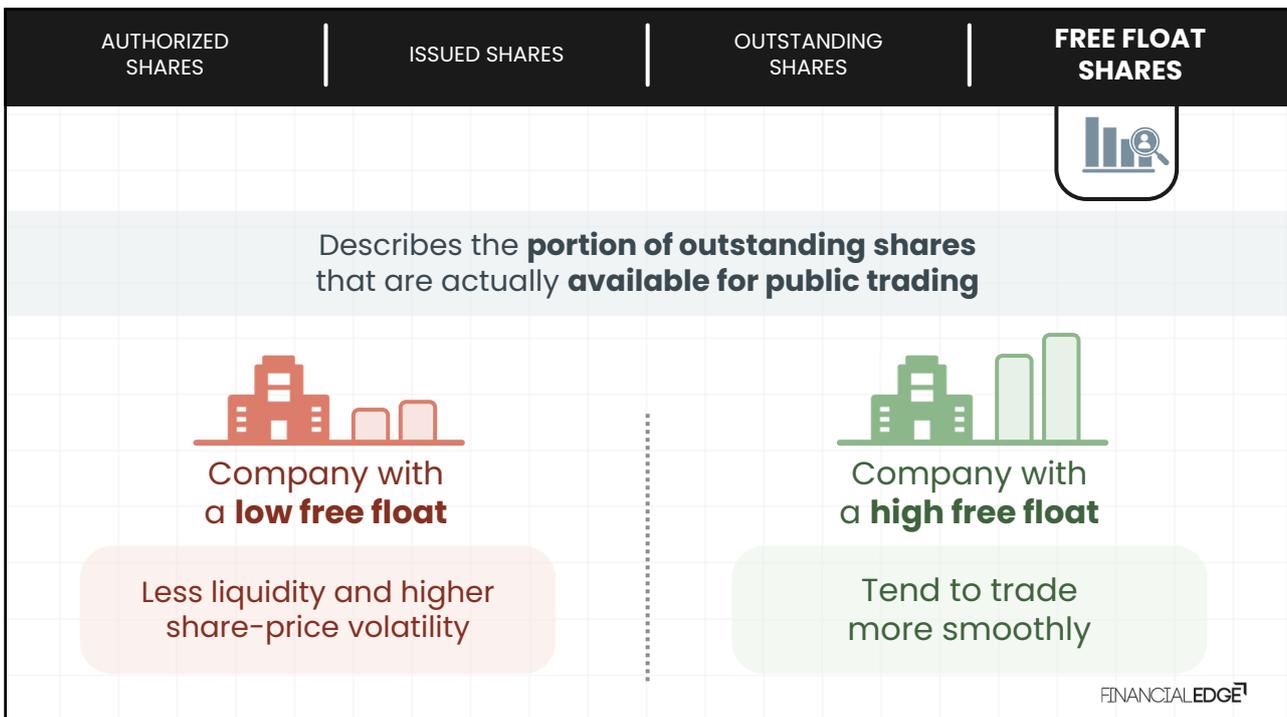
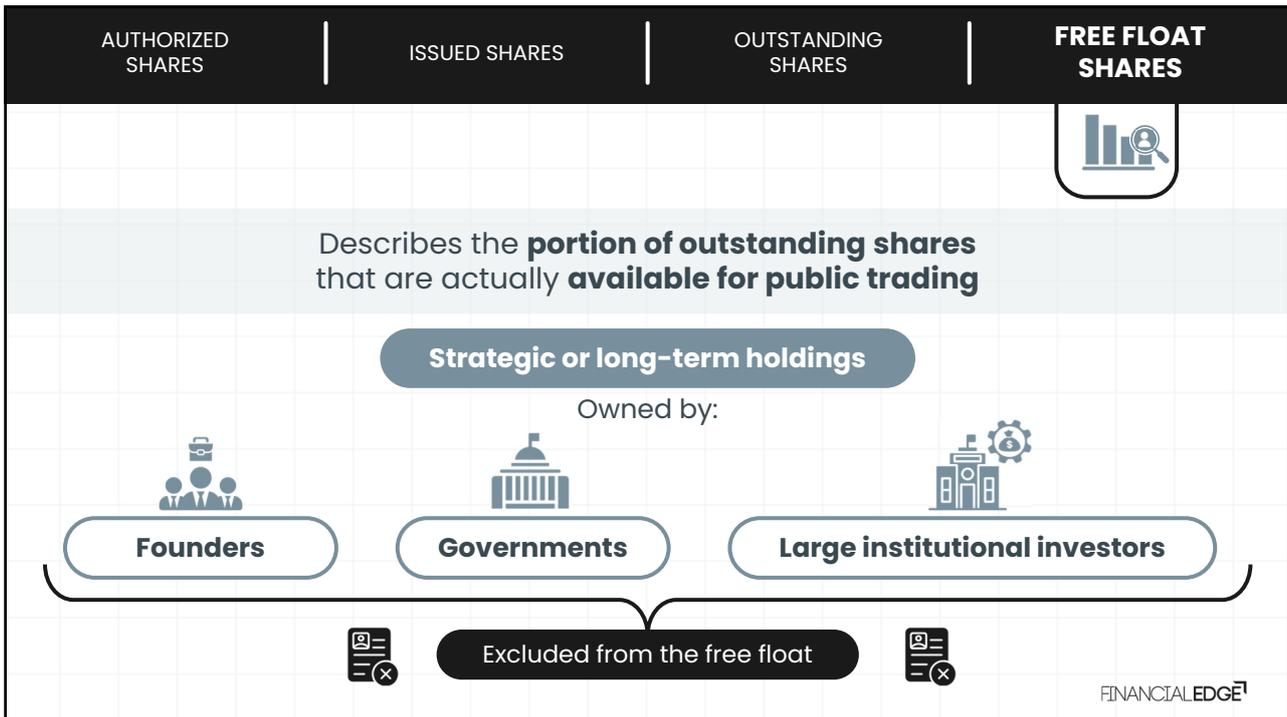
Companies are **no longer required to specify** an **authorized share capital number**

But in many markets, **especially in the United States, the concept still applies**

FINANCIALEDGE<sup>1</sup>







# Important Equity Language – Ticker and Market Cap

FINANCIALEDGE<sup>1</sup>

EQUITY TICKER



Short **identifier** that tells you what the **security is** and **where it trades**



START OF THE PANDEMIC

zoom

Ticker: (ZM)



**Investors** rushed to **buy** what they thought was **Zoom stock**

ZOOM  
TECHNOLOGIES

Ticker: (ZOOM)

**Accidentally** bought shares of **Zoom Technologies**

FINANCIALEDGE<sup>1</sup>



**EQUITY TICKER**

Short **identifier** that tells you what the **security is** and **where it trades**

**Investors** rushed to **buy** what they thought was **Zoom stock**

**Accidentally** bought shares of **Zoom Technologies**

The confusion drove a sharp spike in the wrong company's share price



**SEC halted trading to protect investors**

Double check before placing a trade:

TICKER

LISTING VENUE

SHARE CLASS

FINANCIALEDGE<sup>1</sup>



**EQUITY TICKER**

Can be **challenging** to get the **company ticker correctly**:

**COMPANY A**



May use **one root symbol** with **different suffixes** across **different exchange trading venues**

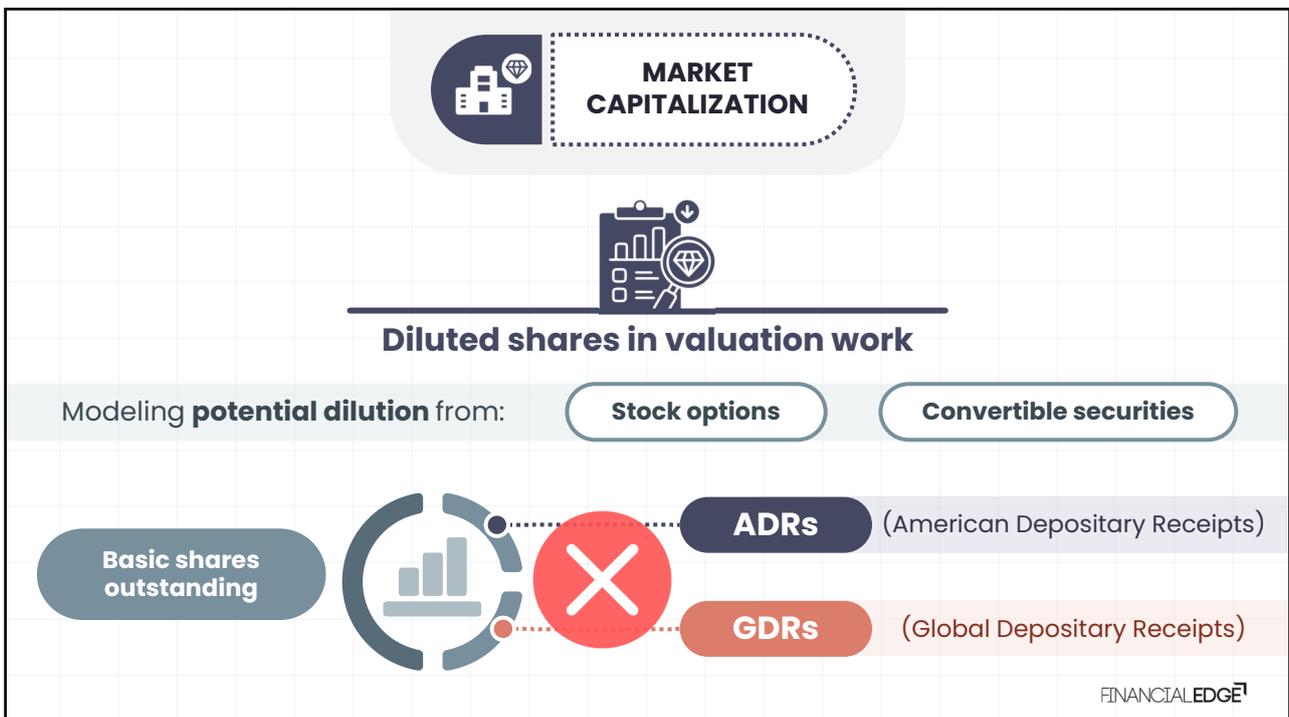
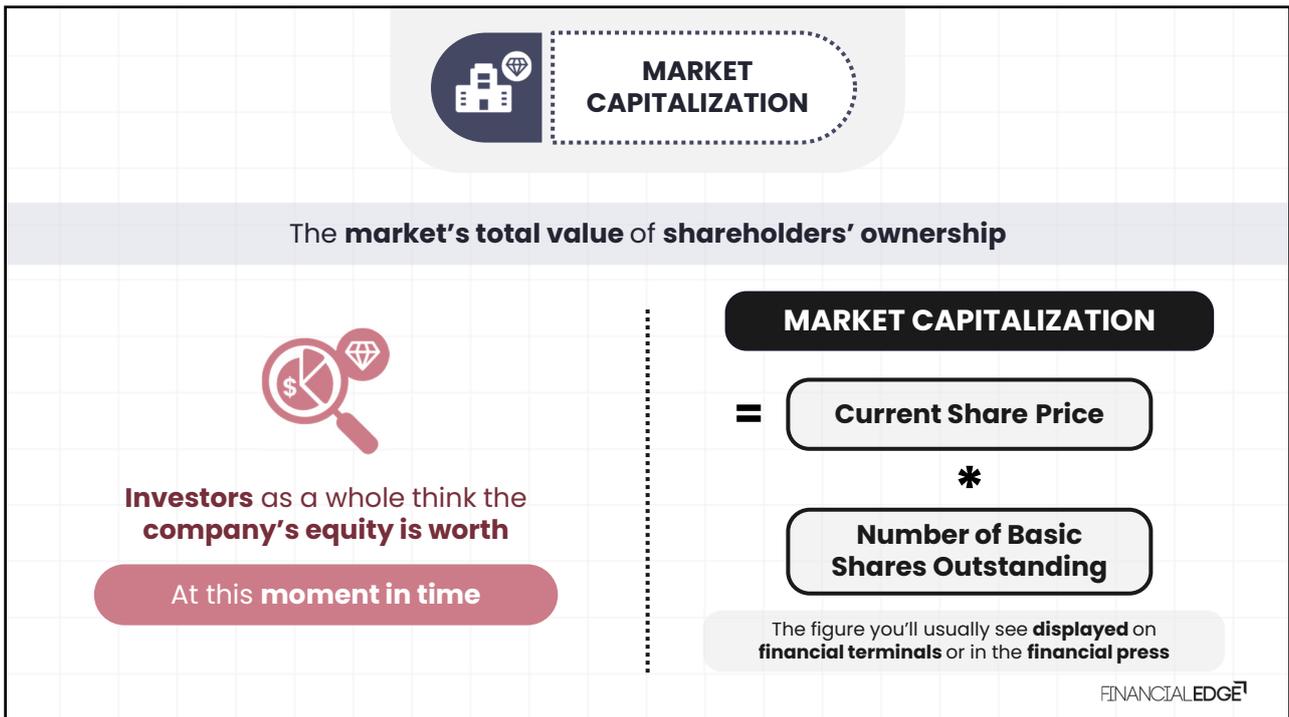
(Symbols can also **differ by data vendor**)

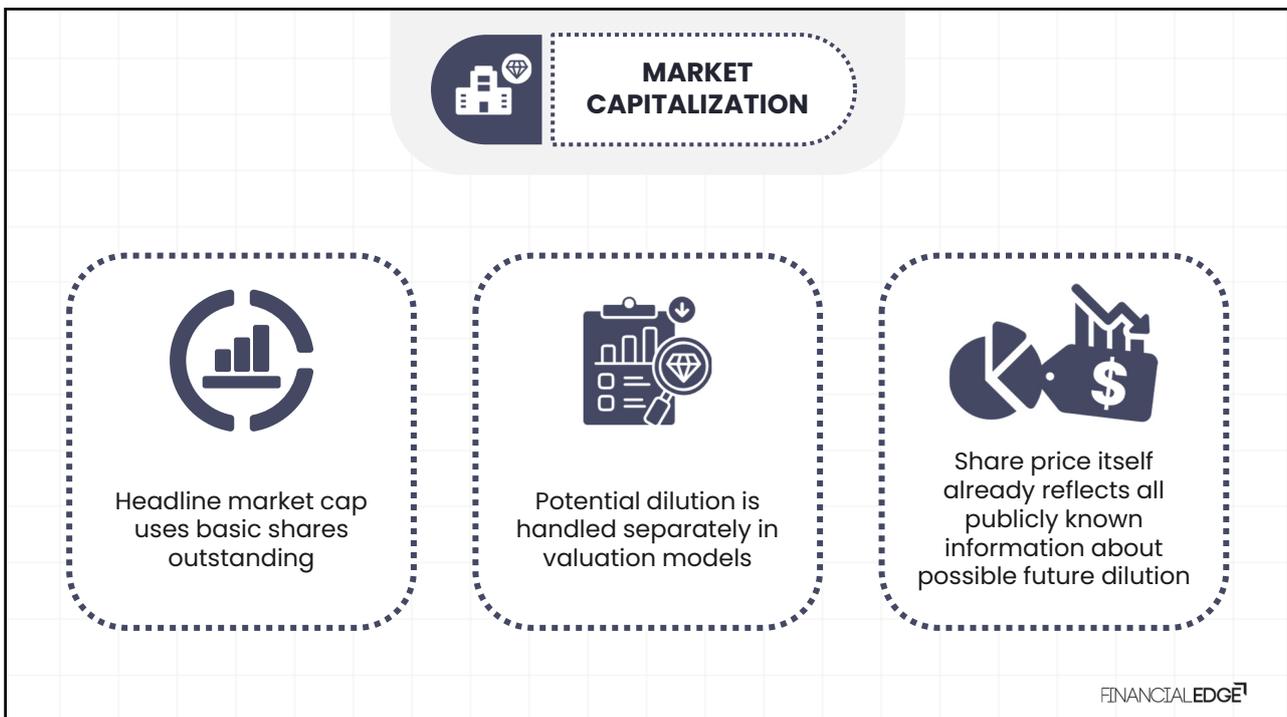
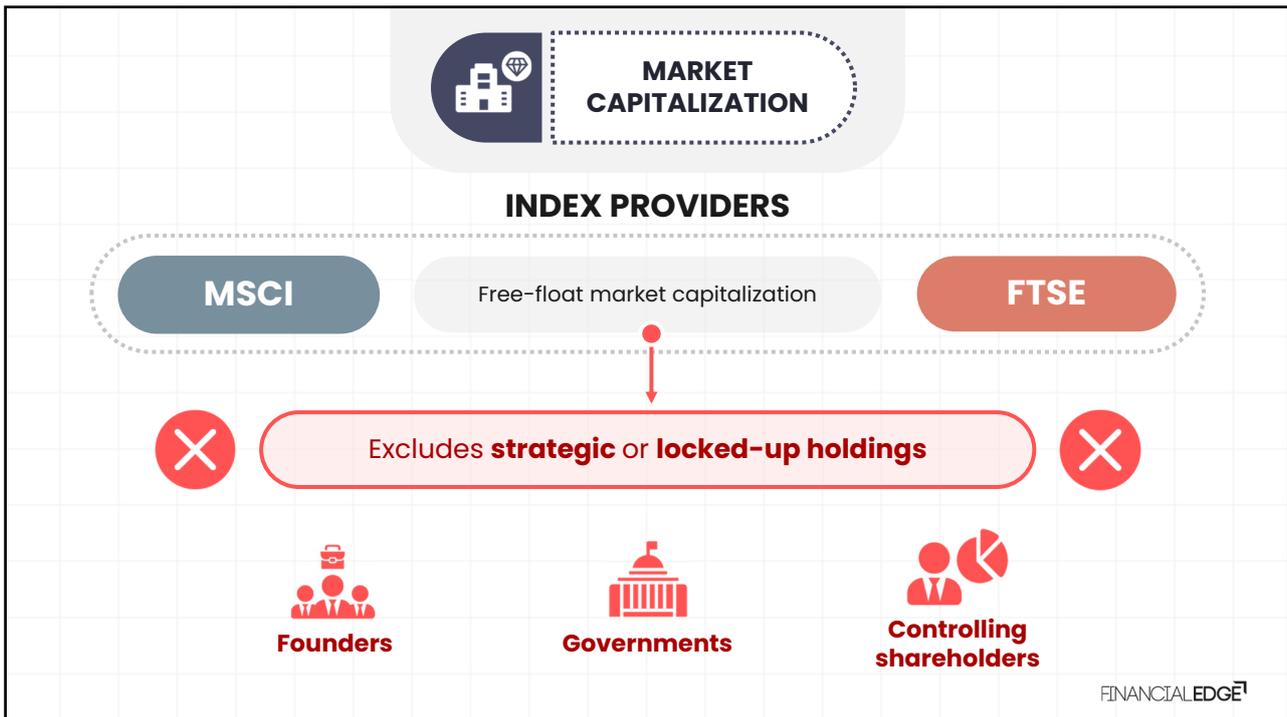
**COMPANY B**



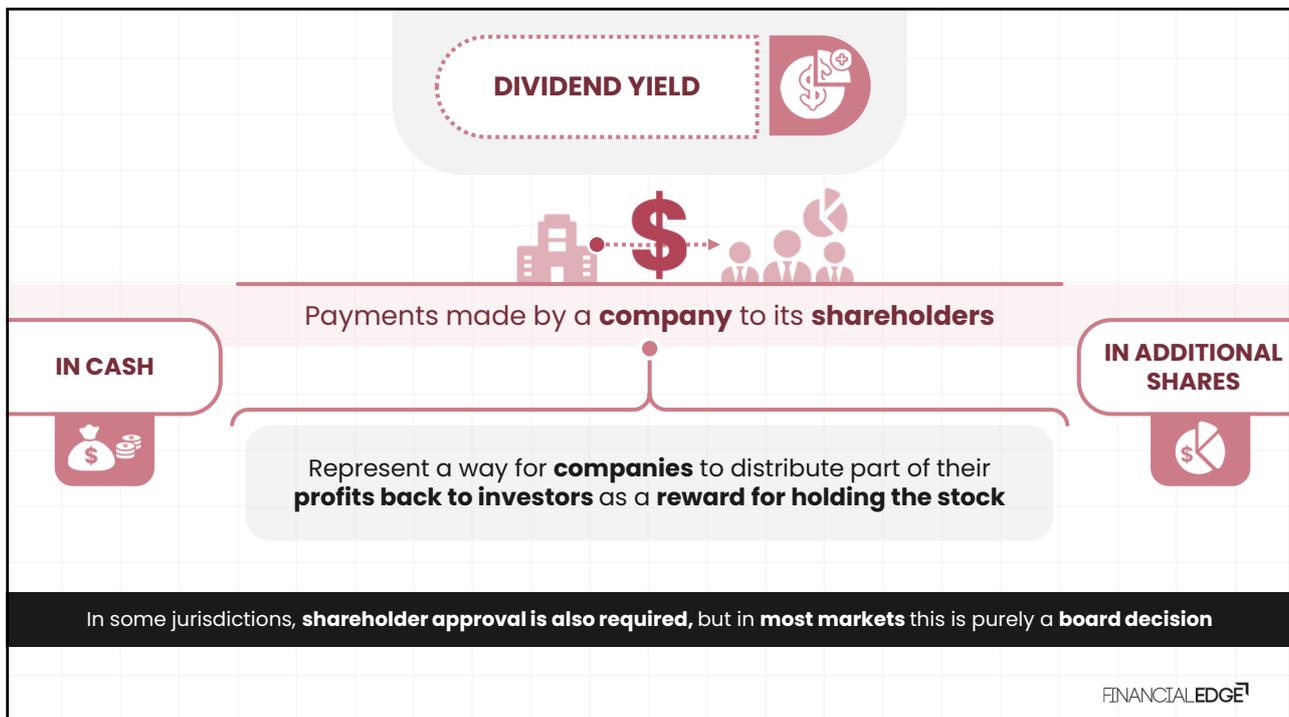
**Company** may have **multiple share classes** - ordinary versus preferred, or **Class A versus Class B**

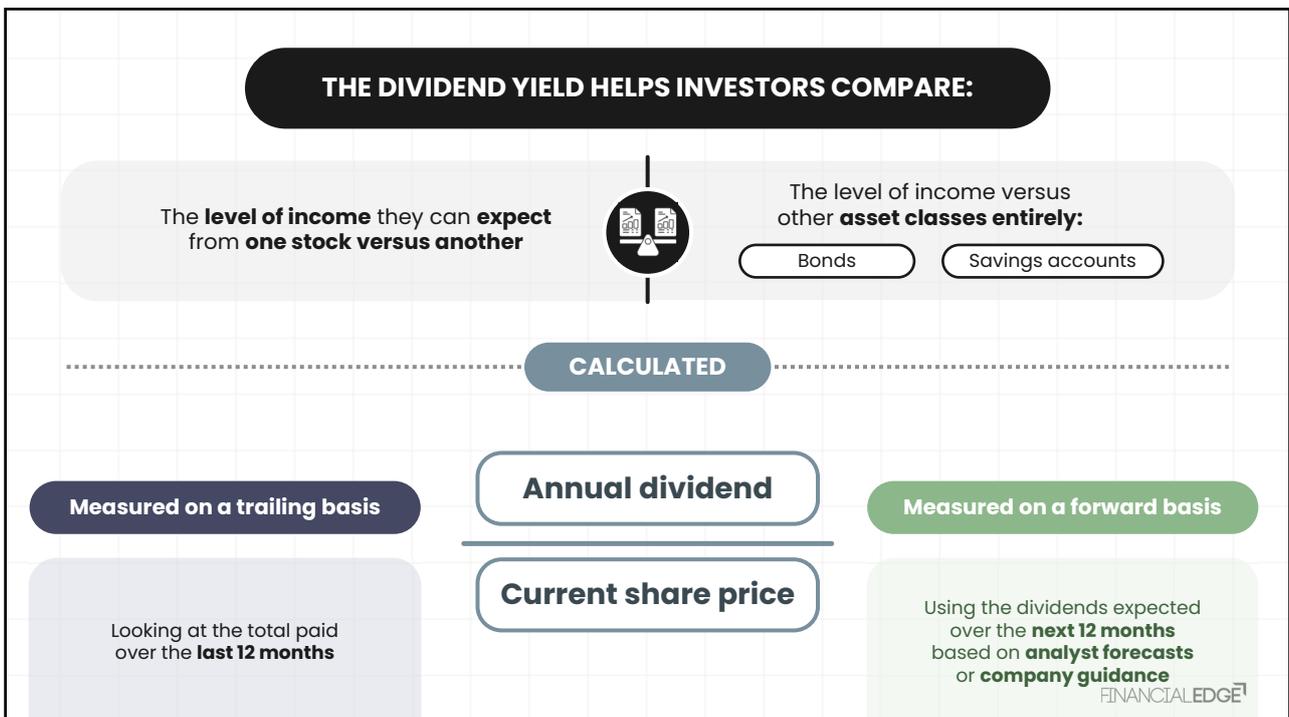
FINANCIALEDGE<sup>1</sup>

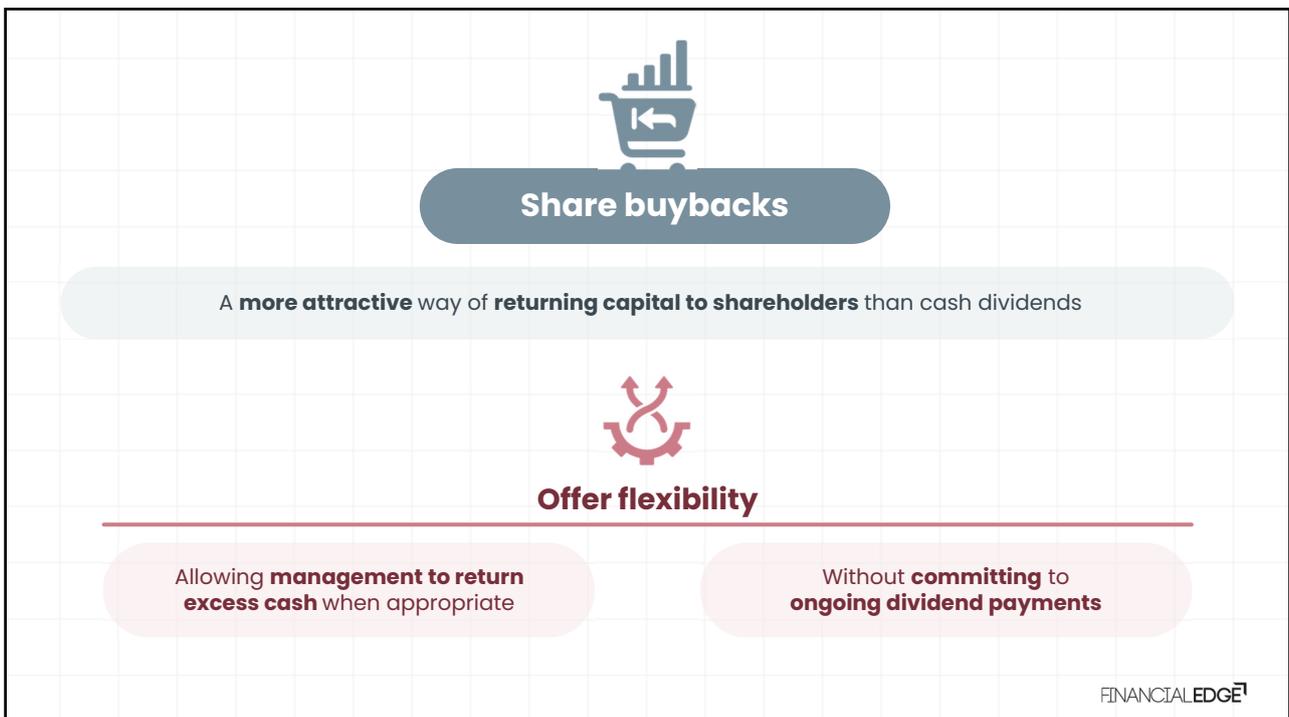
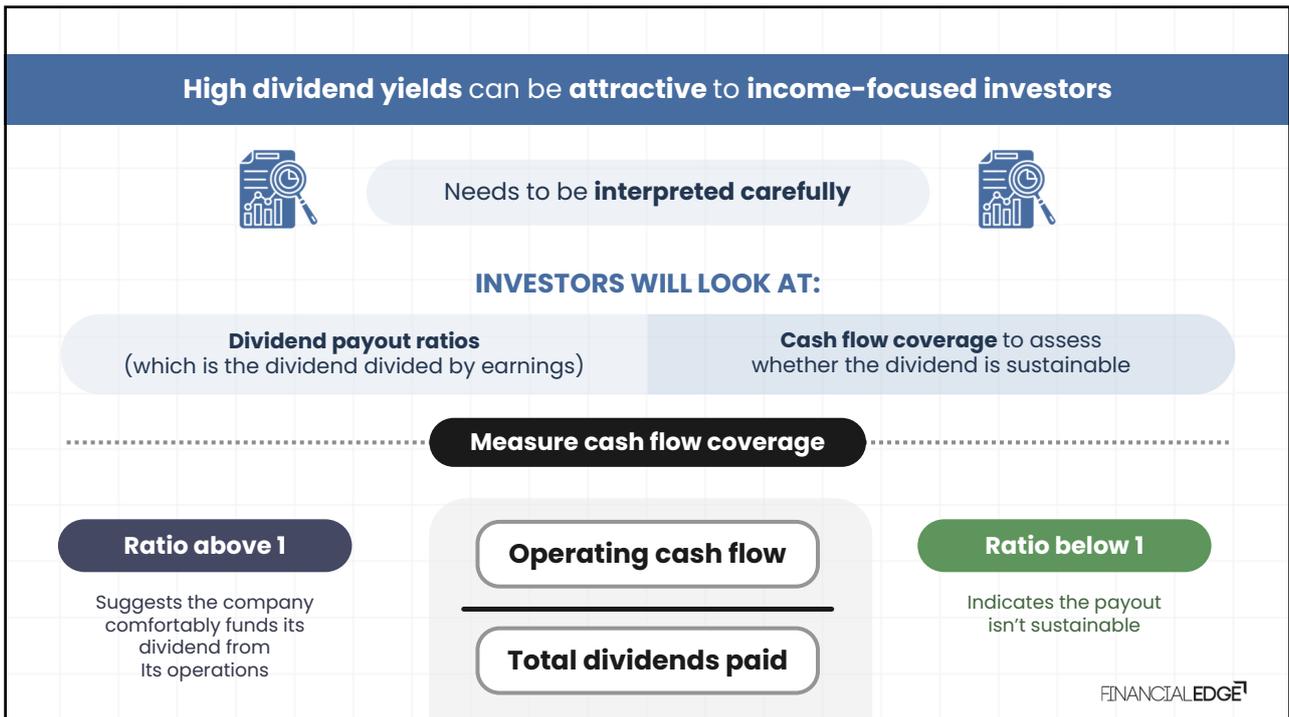




# Important Equity Language – Dividends and Dividend Yield

FINANCIALEDGE<sup>1</sup>FINANCIALEDGE<sup>1</sup>





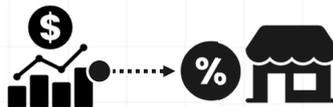
# Important Equity Language – Equity Beta

FINANCIALEDGE<sup>1</sup>

## EQUITY BETA

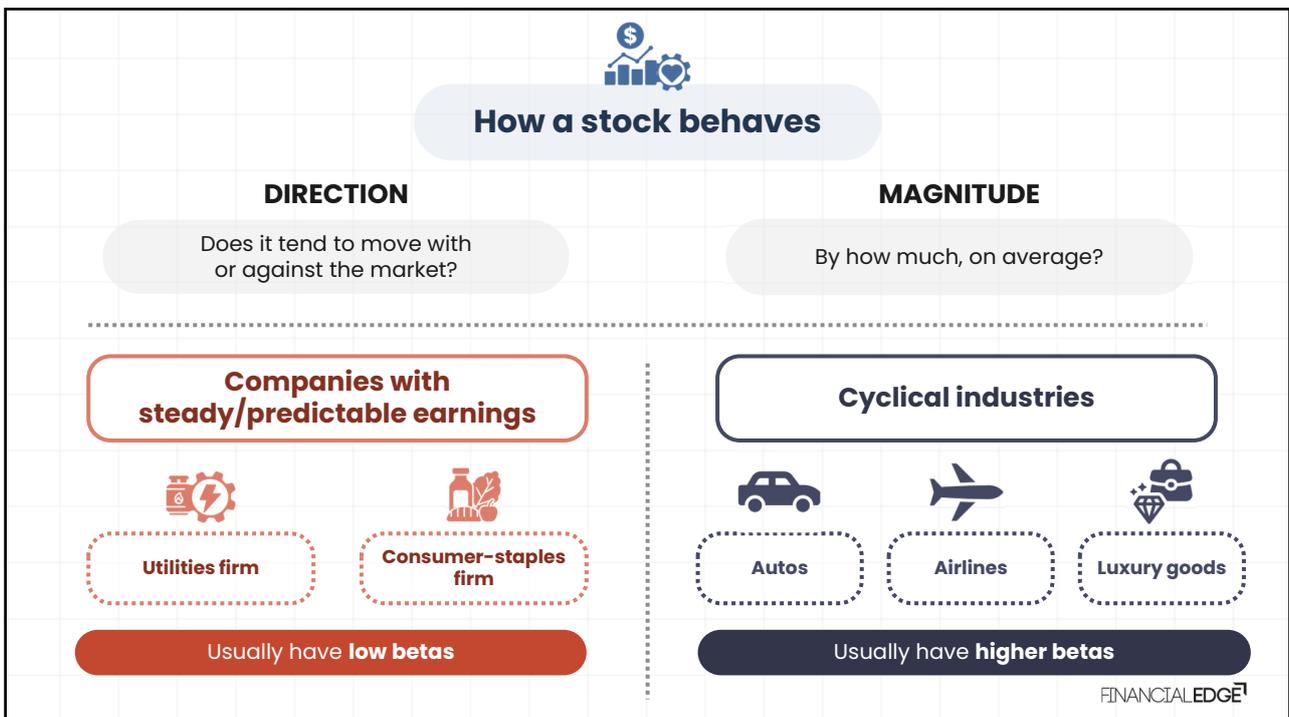
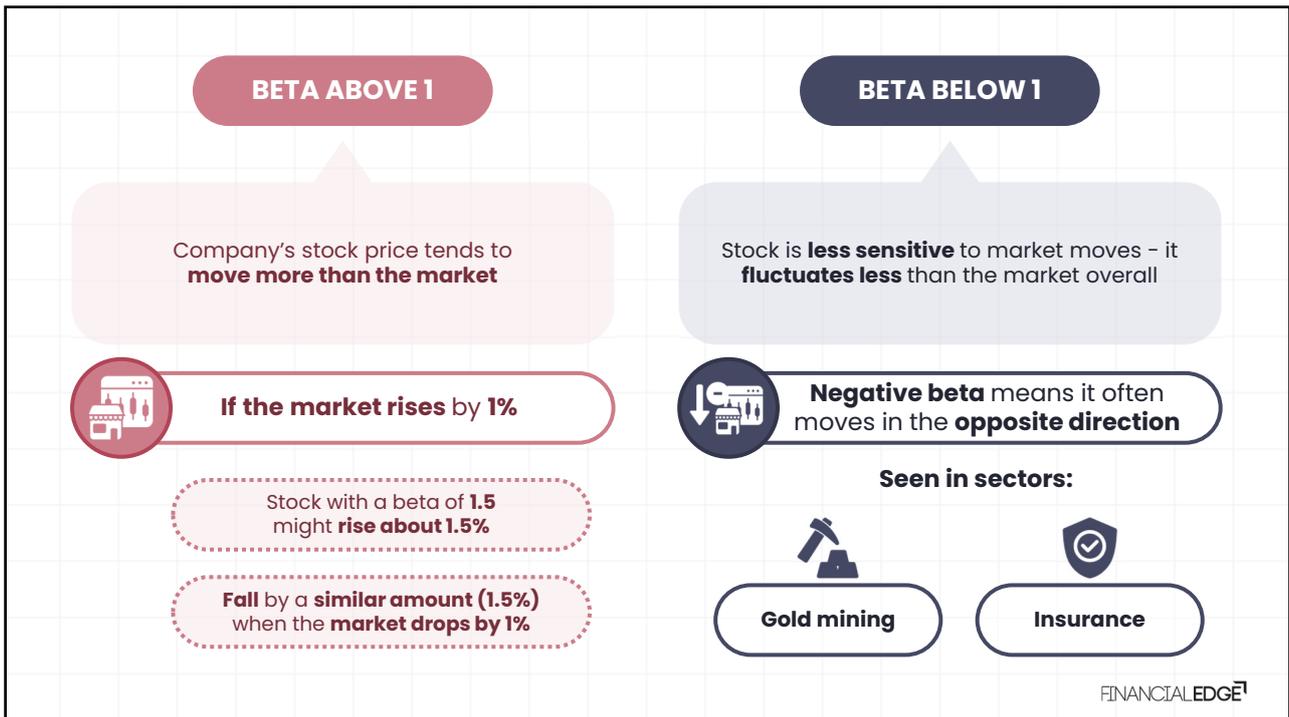
Measures how **sensitive a stock's returns** are to **movements** in the **overall market**

BETA OF 1

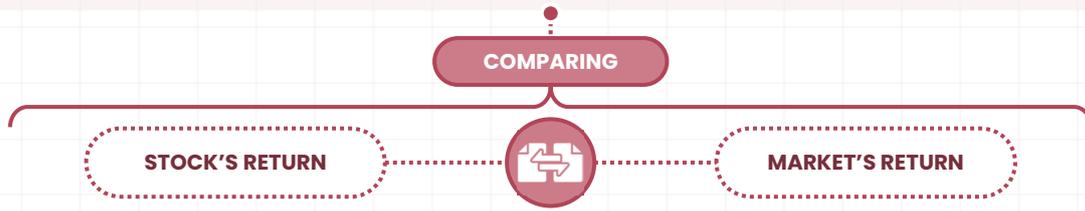


Stock usually moves in the **same direction** and  
by **roughly the same percentage** as the **market**

FINANCIALEDGE<sup>1</sup>



We can **calculate the beta** by **running a linear regression**



Important to note that the result depends on how you measure it:

Which **market index** you choose

How frequently you **sample returns**  
(Daily, weekly, or monthly)

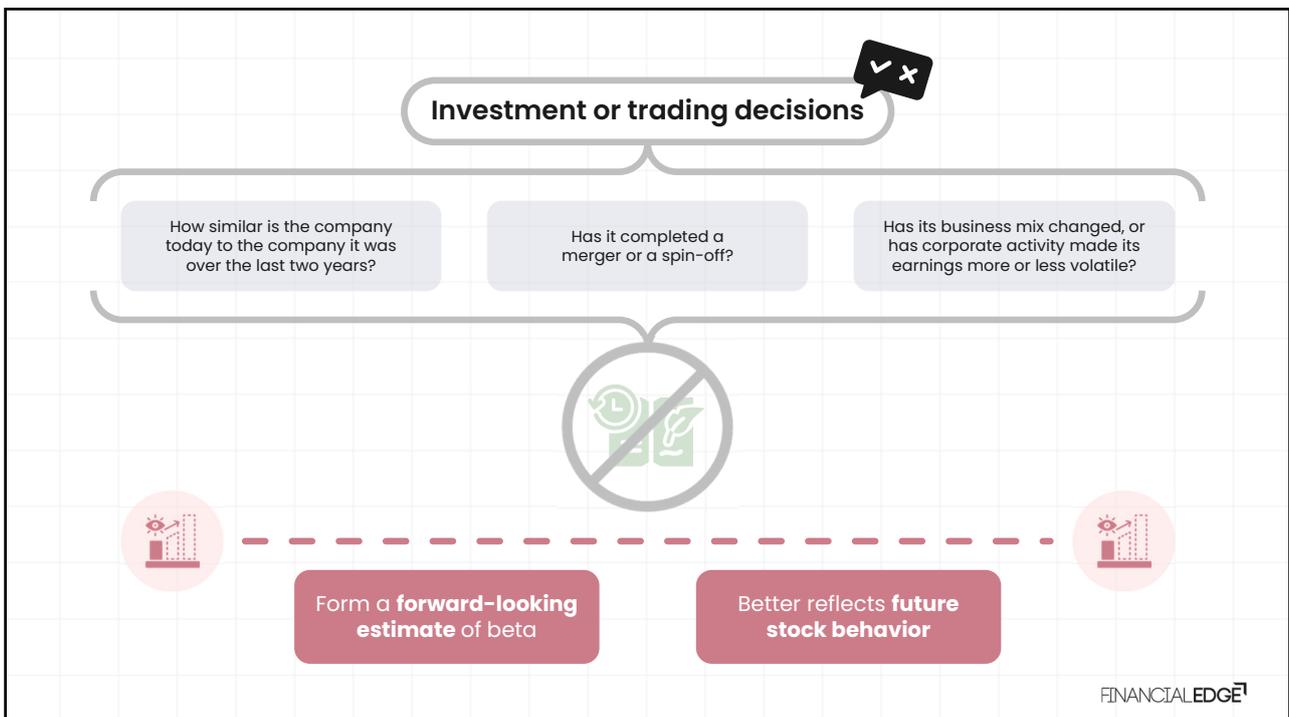
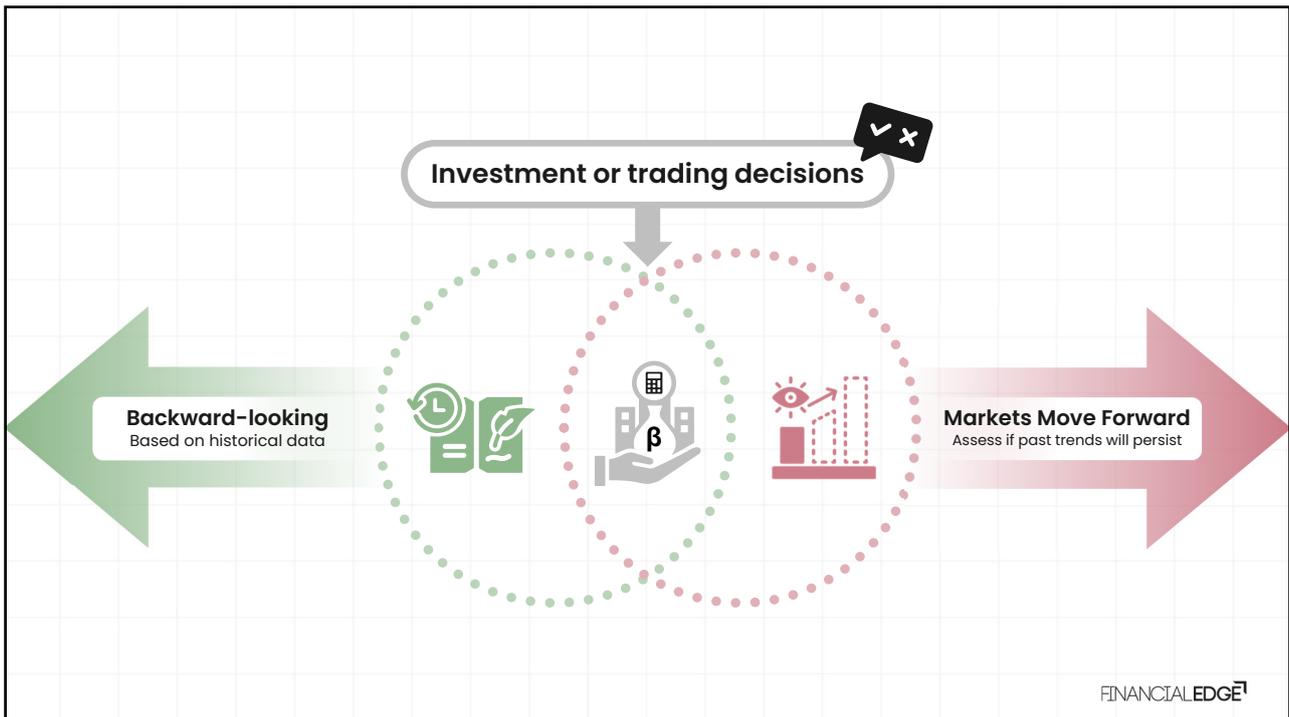
How long your **look-back period** is  
(Data from the last 2, 5, or 20 years)

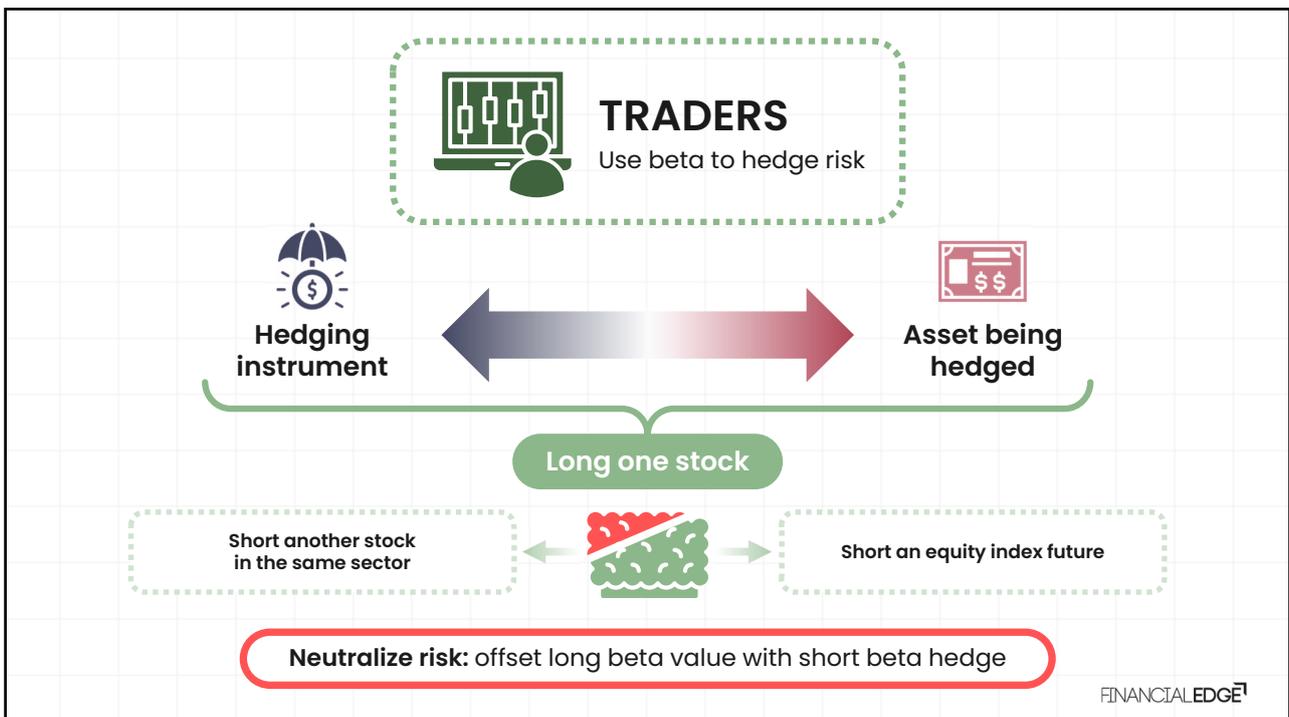
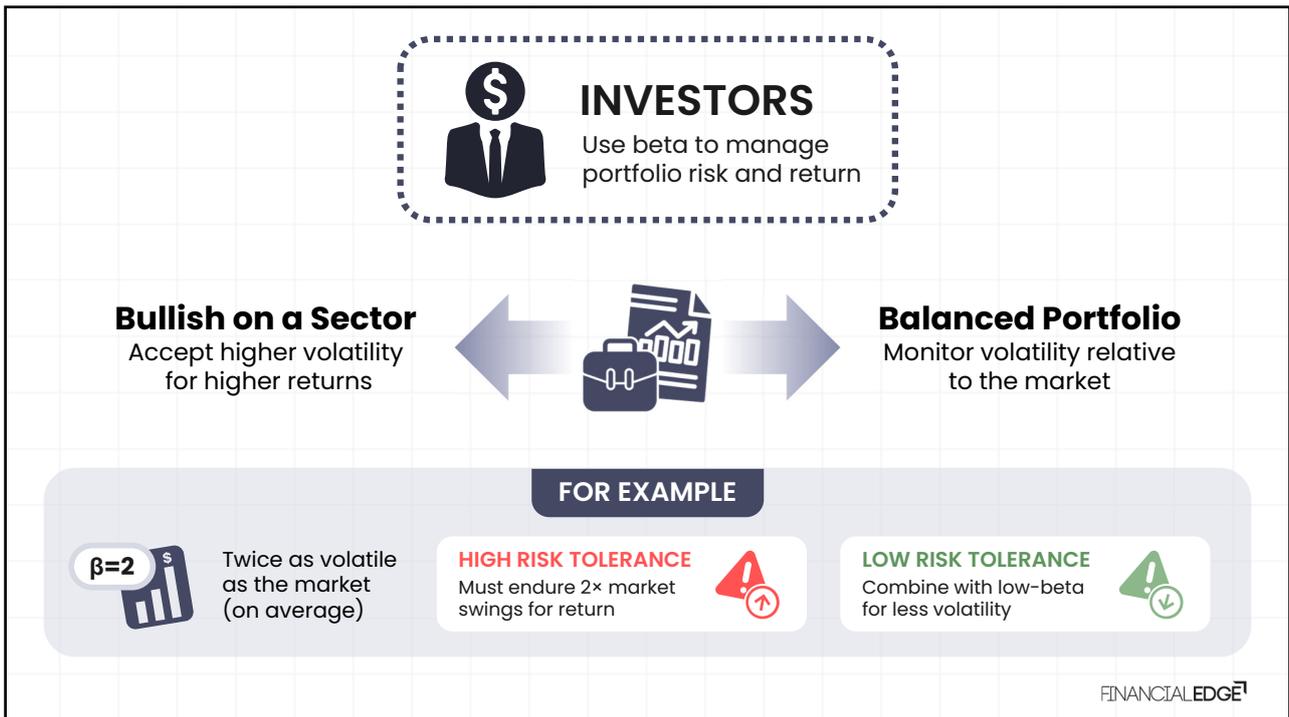


**THE GOAL**

Capture how the **company behaves today**, not how it **behaved years ago** under a **different structure or strategy**

# Investor and Trader Use of Equity Betas





# Investor and Trader Use of Equity Betas – Example

FINANCIALEDGE<sup>1</sup>

Long 500,000 shares of Alpha Bank



Trading at

32.15 euros  
per share

Historical beta

1.4

**HEDGE EXPOSURE**  
(Remove market risk)



Sell short **B Financial Co**

With a **beta of 1.1**



Short the national equity index

FINANCIALEDGE<sup>1</sup>



**Hedge with B Financial Co**

---

**Long market value**

500,000 Shares \* 32.15 = 16.075 million euros

---

**Beta-adjusted long market value**

16.075 million euros \* 1.4 = 22.5 million euros

FINANCIALEDGE<sup>1</sup>

Short position must also have a beta-adjusted value **22.5 million euros**



**B Financial Co**

Beta **1.1**

Price **3.2**

Need to short roughly **6.39 million shares** to **balance the trade**:

$\frac{22.5 \text{ million euros}}{1.1} \div 3.2 = 6.39 \text{ million shares}$

 **Only neutralizes market risk** There is still a chance to **spread the risk** between **Alpha Bank** and **B Financial Co**

FINANCIALEDGE<sup>1</sup>

## Hedge using the index

Target a **short notional** of: 22.5 million euros

NOTIONAL
CONTRACT'S MULTIPLIER
FUTURES CONTRACTS

Convert that notional into futures contracts using the contract's multiplier

INDEX
Beta of 1

We are using the **beta adjusted long value** already, **no further beta adjustment** will be required

FINANCIALEDGE<sup>1</sup>

## Hedge using the index

Target a **short notional** of: 22.5 million euros

Practicalities to budget for:

Borrow/short costs

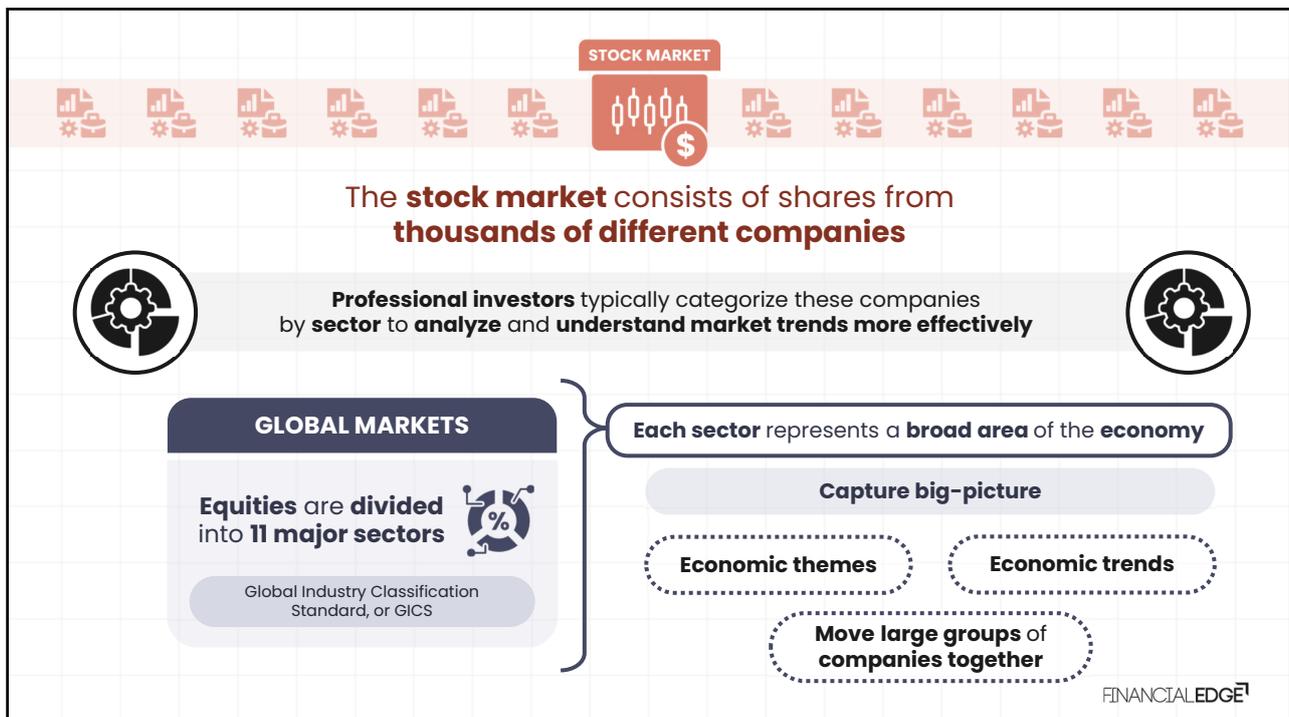
(and dividends owed while short)  
if you hedge with stock

Roll/slippage if you use futures

**Currency or time-zone mismatches** between legs can also **introduce noise**

FINANCIALEDGE<sup>1</sup>

# Equity Classification: Market Sectors – Introduction



**Financial sector** includes a wide range of industries:



**Commercial banking**



**Investment management**



**Insurance and financial technology**

**Each sector**



**Characteristics**

**Risk profile**

**Valuation drivers**

Each sector **responds differently** to changes in the economic cycle or interest rates

Understanding **sector behavior** is **key** to **interpreting how markets move overall**



**Analyzing market data at the sector level**

Helps simplify the complexity of the global economy into more manageable pieces

**Allows investors to identify where capital is flowing**

**Defensive areas**



Utilities



Consumer Staples

**Cyclical areas**



Industrials

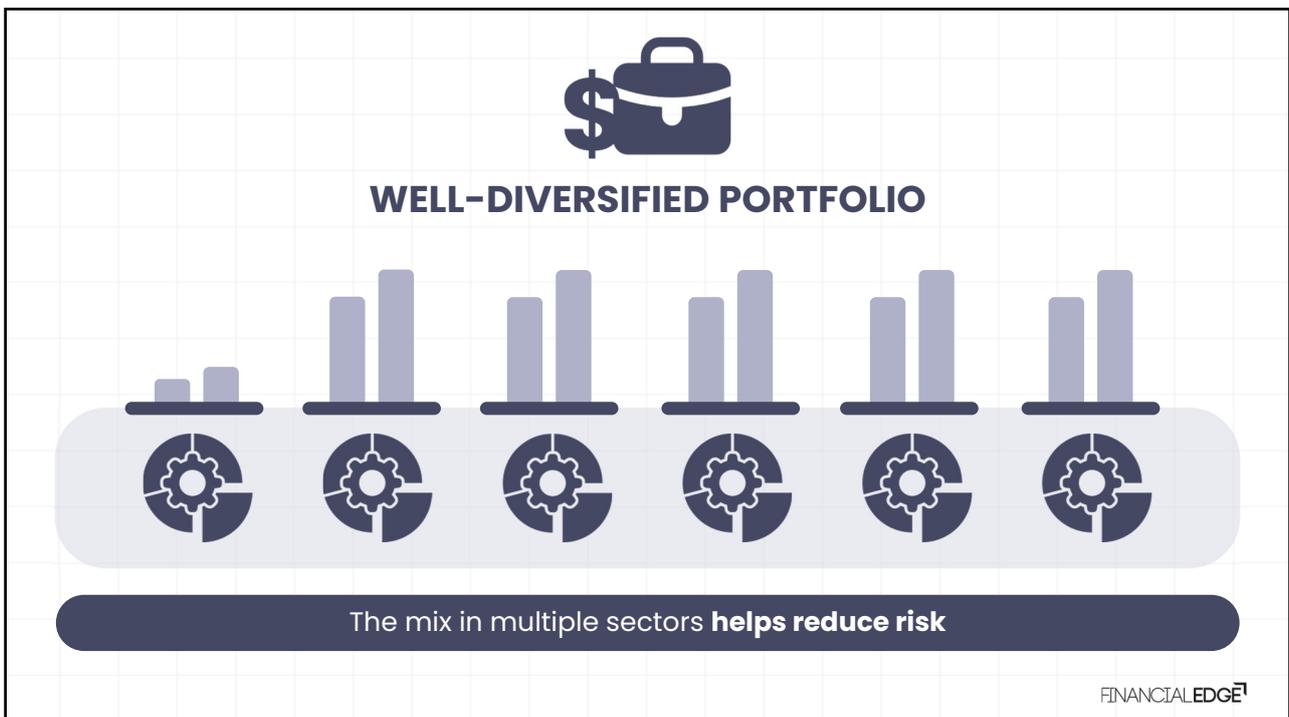
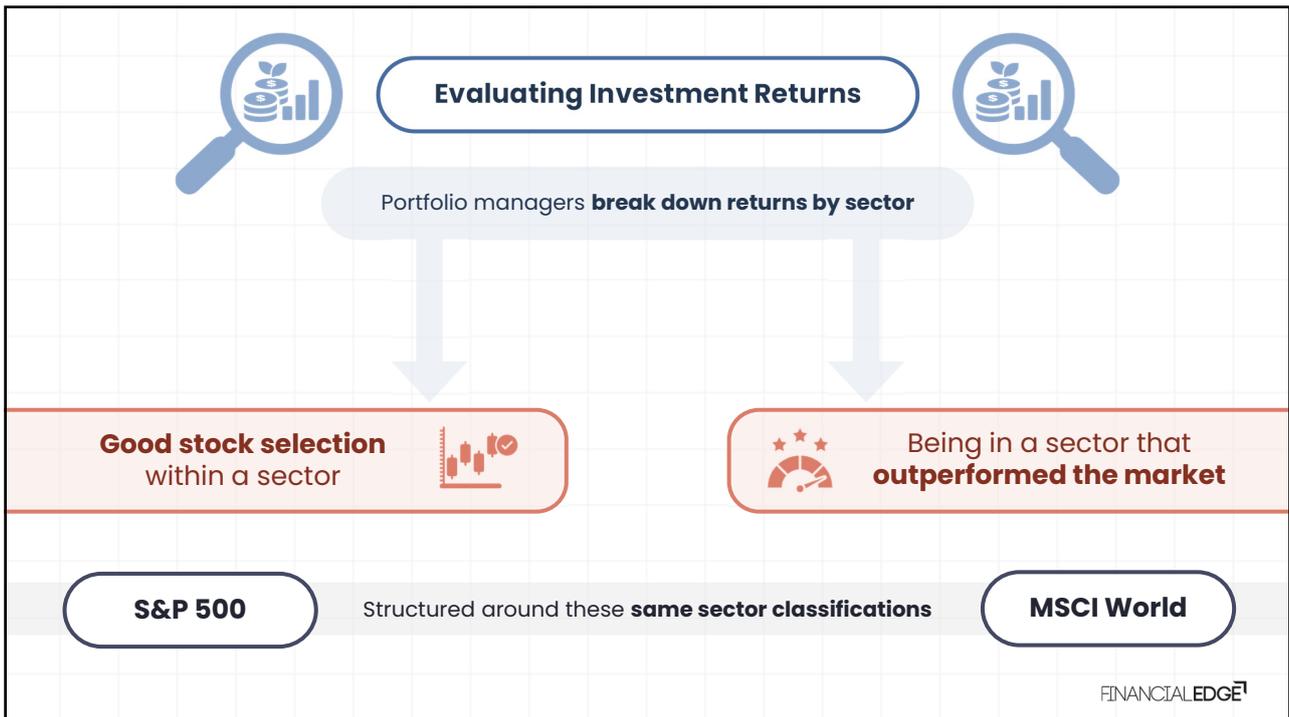


Energy



Financials

This **analysis** provides a **clearer view** of **macroeconomic trends** and **investor sentiment**





**Global Industry Classification Standard (GICS)**

**11 SECTORS IN TOTAL**



**Grouping companies** that **operate** in similar parts of the **economy**



**COMMUNICATION SERVICES**



CONSUMER DISCRETIONARY



CONSUMER STAPLES



ENERGY



FINANCIALS

**Companies** that facilitate **communication** or provide **entertainment content**



Media



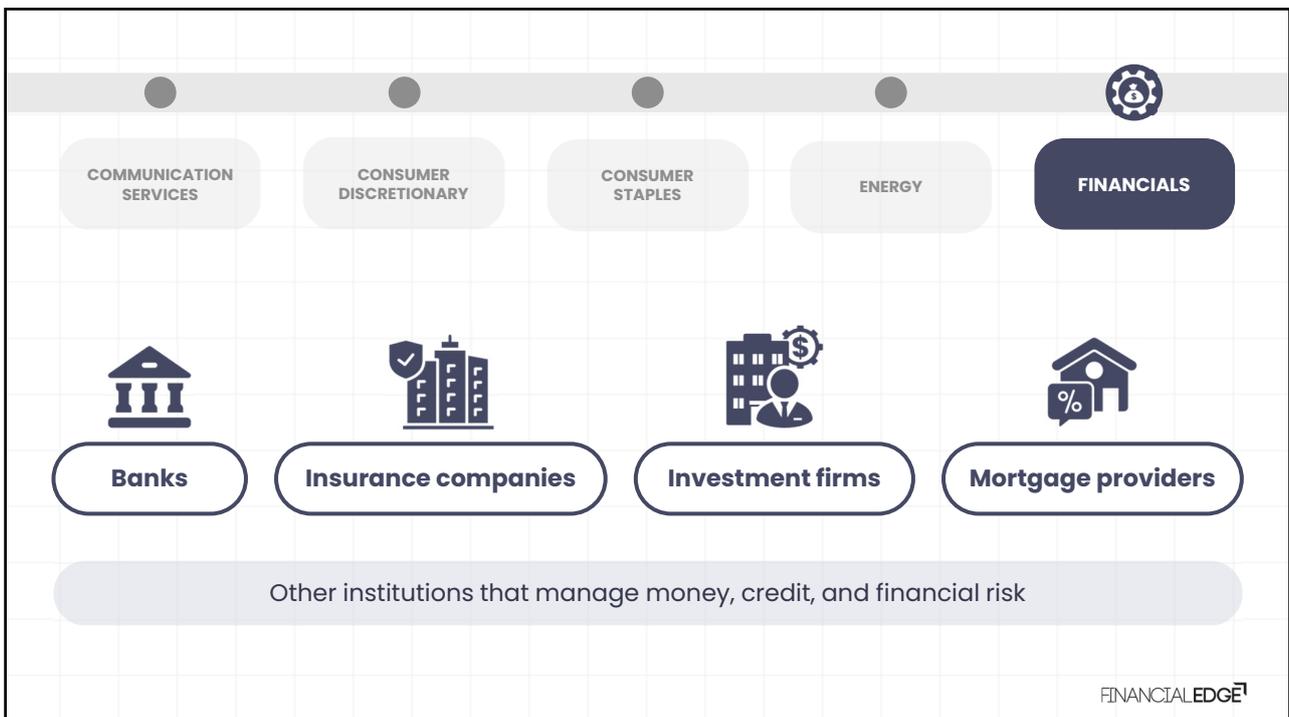
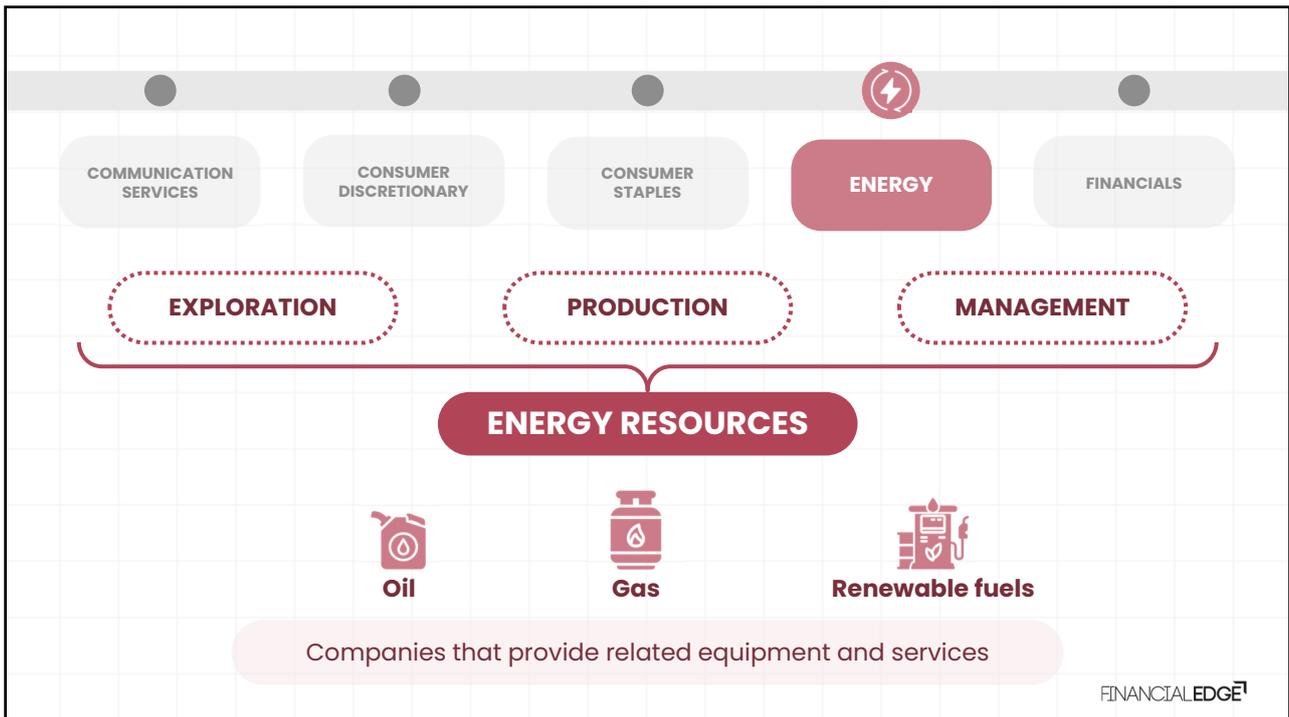
Telecom



Online platforms

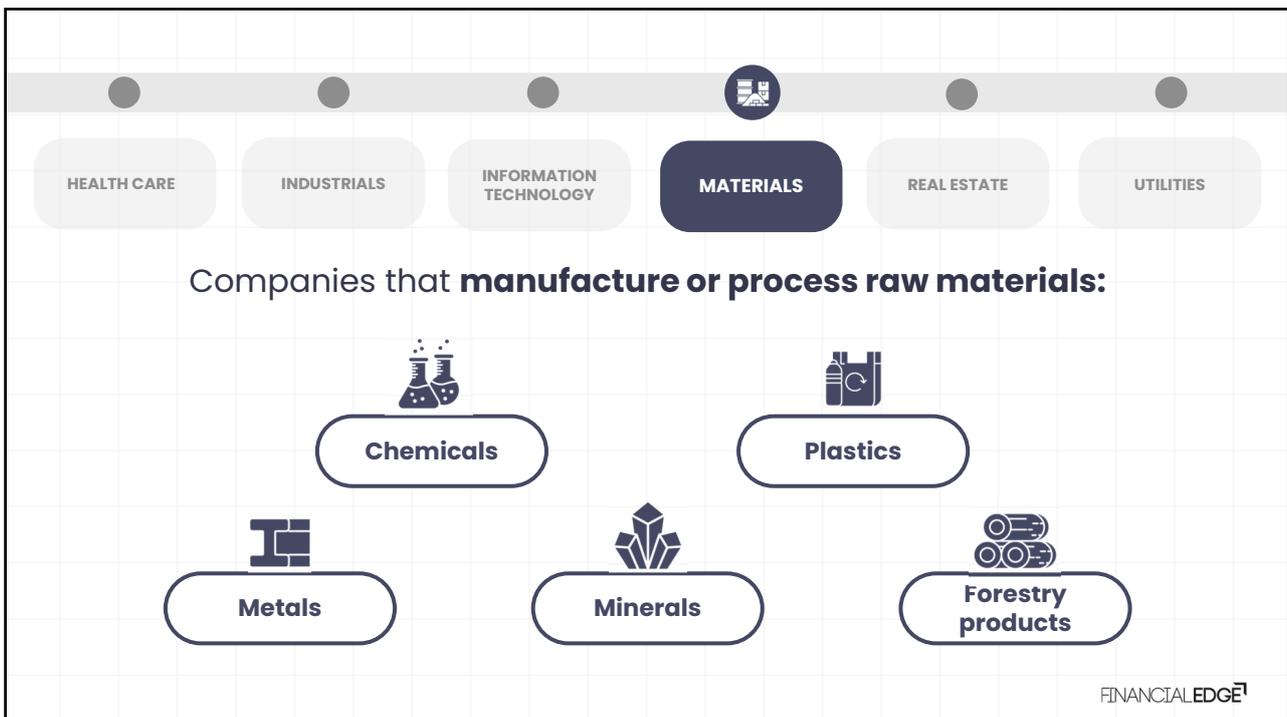
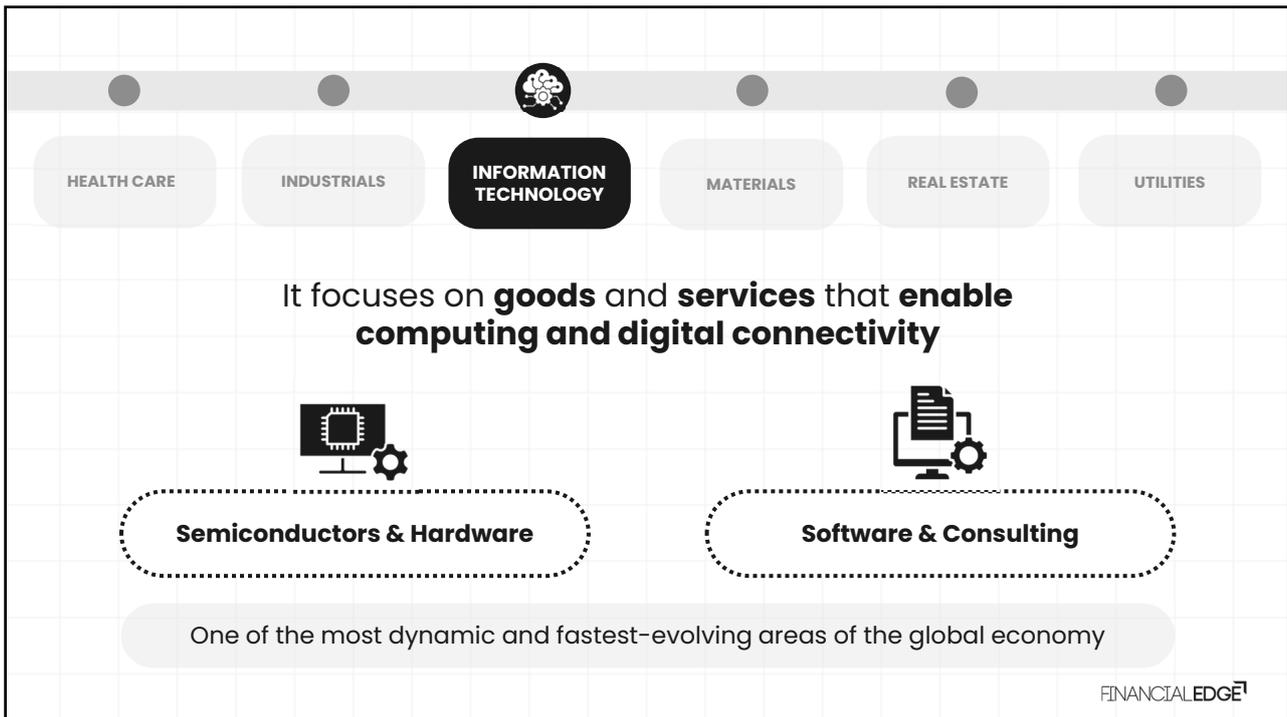
This infographic illustrates the Consumer Discretionary sector. At the top, a horizontal bar contains five category buttons: COMMUNICATION SERVICES, CONSUMER DISCRETIONARY (highlighted in blue), CONSUMER STAPLES, ENERGY, and FINANCIALS. Below this, a central text box states: "Companies that make **goods** and **services** people want, but **don't necessarily need**". Underneath, four icons represent sub-sectors: Car manufacturers (factory and car), Luxury brands (shopping bag and diamond), Retailers (storefront), and Travel or leisure companies (globe and airplane). A light blue bar at the bottom notes: "Performance usually rises and falls with consumer confidence and disposable income". The Financial Edge logo is in the bottom right corner.

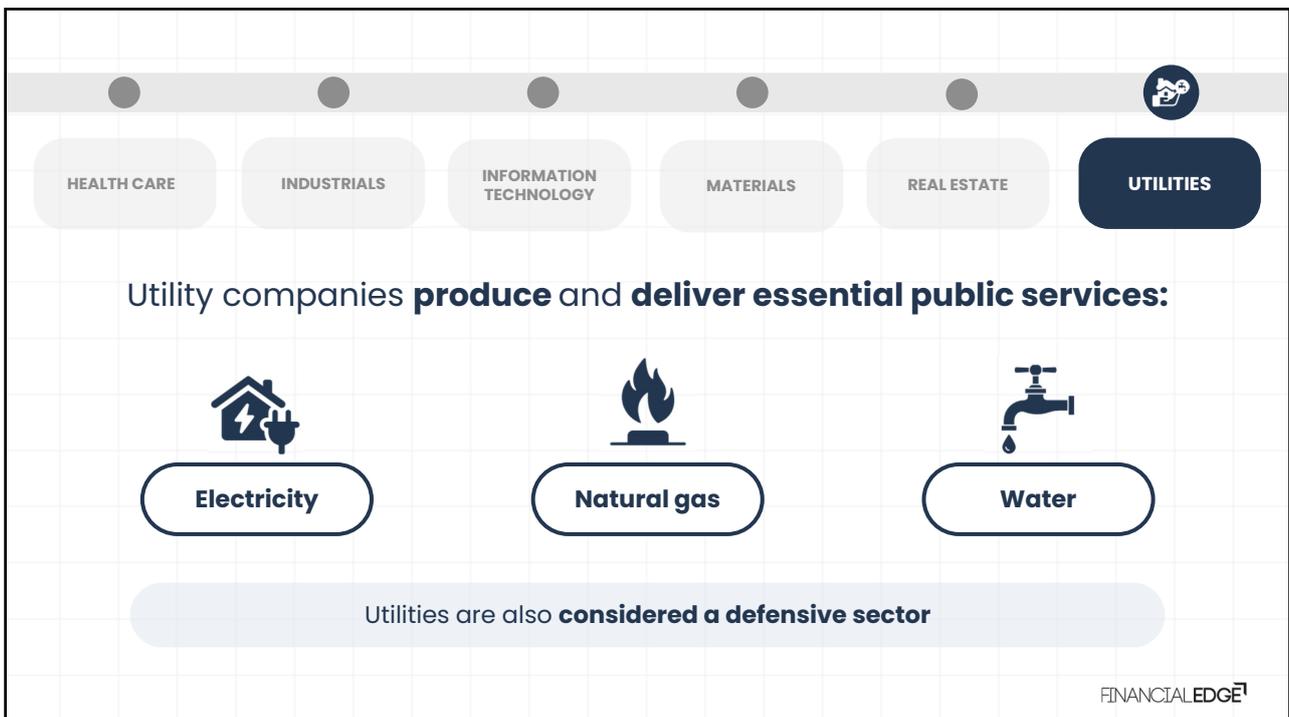
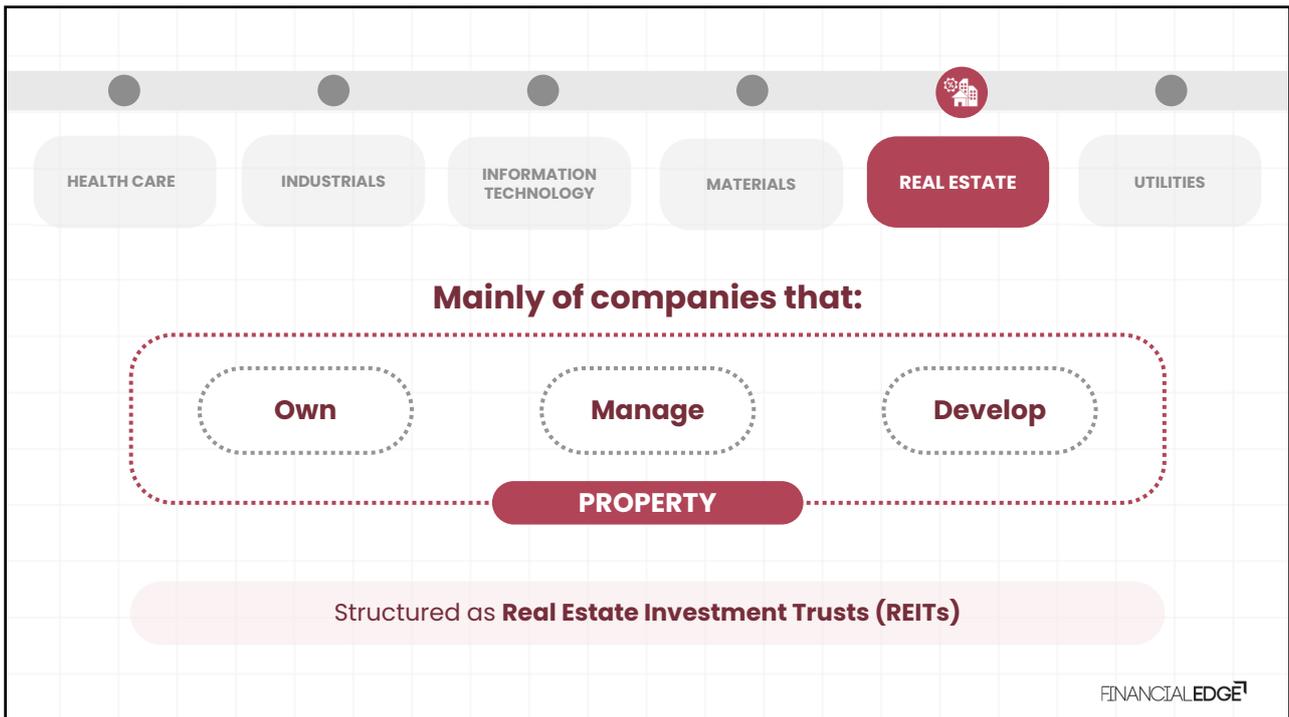
This infographic illustrates the Consumer Staples sector. At the top, a horizontal bar contains five category buttons: COMMUNICATION SERVICES, CONSUMER DISCRETIONARY, CONSUMER STAPLES (highlighted in green), ENERGY, and FINANCIALS. Below this, a central text box states: "People buy and use on a **daily basis**". Underneath, four icons represent sub-sectors: Food (fork and knife), Beverage (two bottles), Household goods (refrigerator and microwave), and Personal care products (toiletries). A light green bar at the bottom notes: "Demand for these is steady, this sector is often seen as **defensive**". The Financial Edge logo is in the bottom right corner.



The infographic features a horizontal bar at the top with six industry icons: Health Care (highlighted in dark blue), Industrials, Information Technology, Materials, Real Estate, and Utilities. Below this bar, the text reads: "Includes companies involved in **producing** and **delivering**:". Underneath, four sub-sectors are shown with icons and labels: Medicines (pill bottle), Medical equipment (first aid kit), Biotechnology (microscope and plant), and Health services (handshake with heart). A grey bar at the bottom states: "Considered relatively **resilient** because demand for health care tends to **remain stable even in economic downturns**". The Financial Edge logo is in the bottom right corner.

The infographic features a horizontal bar at the top with six industry icons: Health Care, Industrials (highlighted in dark grey), Information Technology, Materials, Real Estate, and Utilities. Below this bar, the text reads: "Industrial companies **manufacture** and **distribute capital goods** such as:". Underneath, four sub-sectors are shown with icons and labels: Machinery (factory), Aerospace and defense equipment (rocket and gear), Construction materials (brick and saw), and Engineering services (hard hat). The Financial Edge logo is in the bottom right corner.





# Equity Classification Market Sectors – Economic Cycle

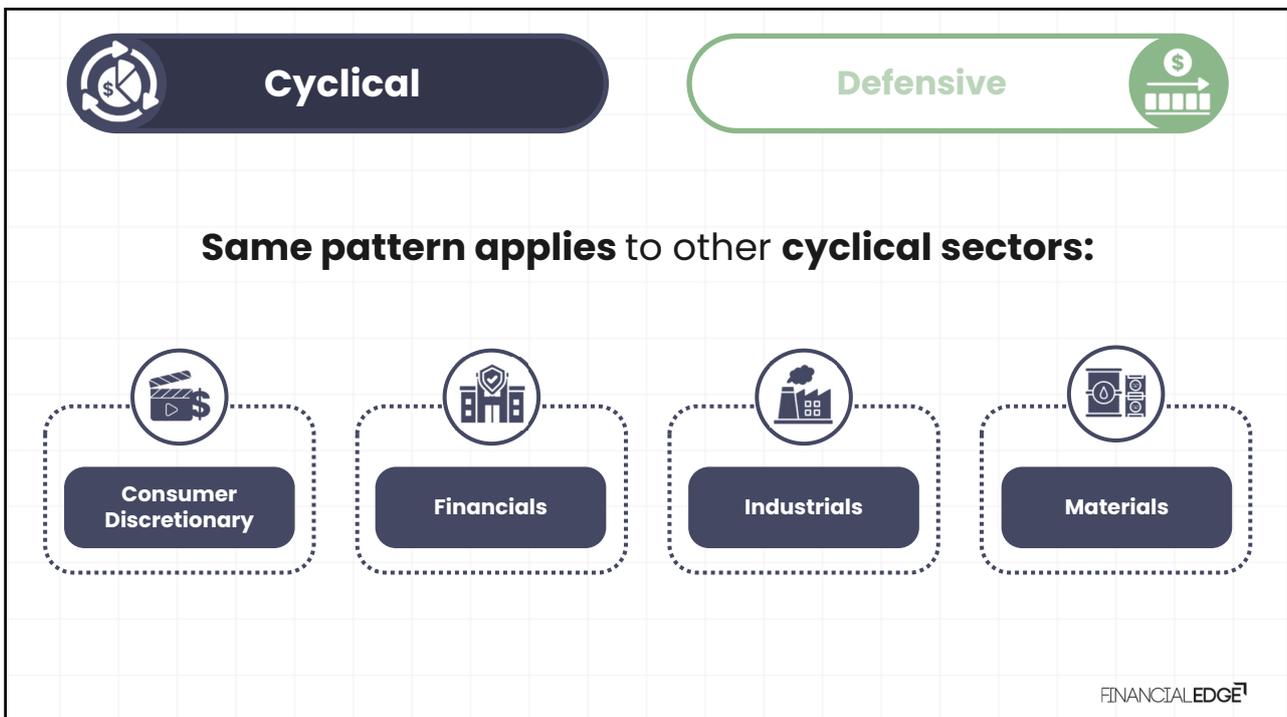
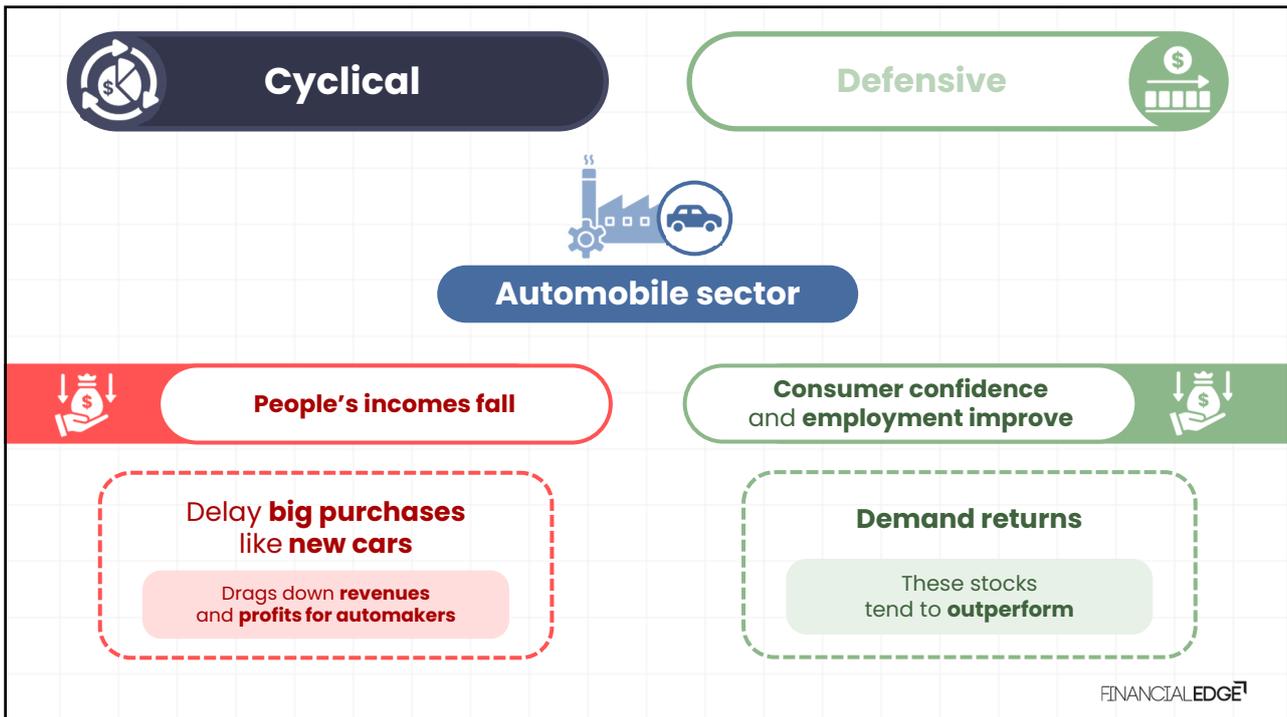
FINANCIALEDGE<sup>1</sup>**Cyclical****Defensive**

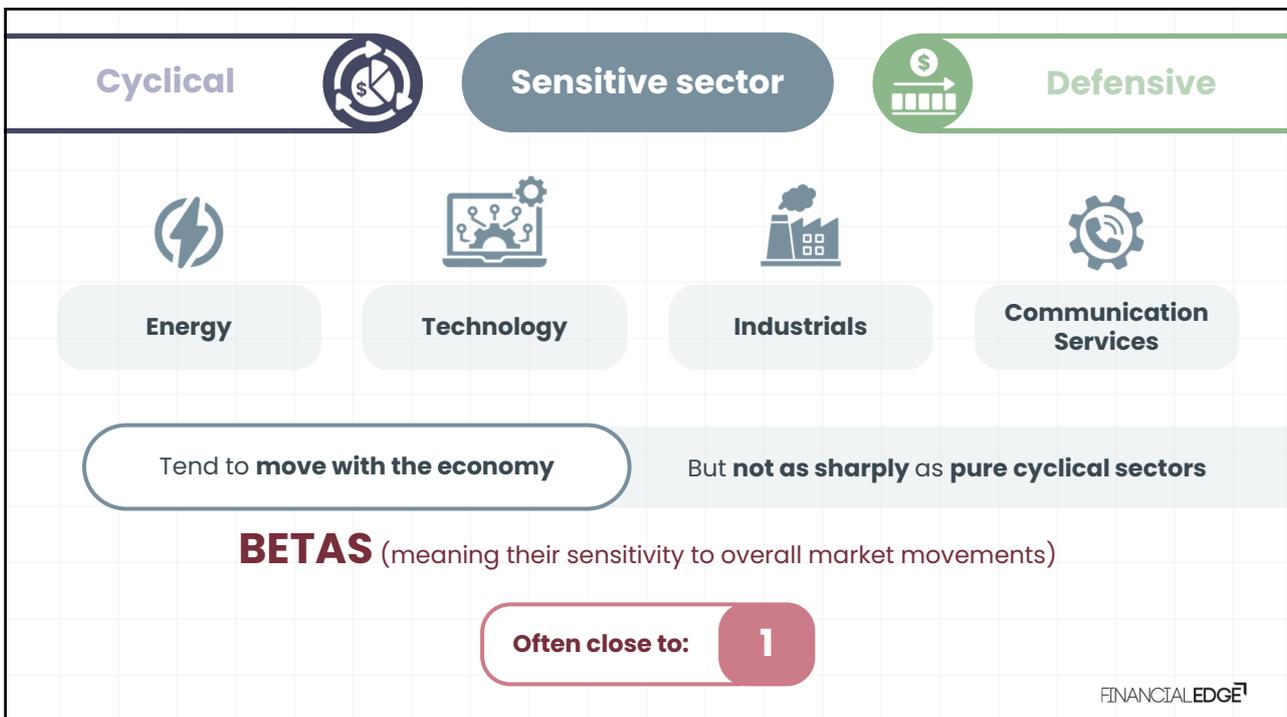
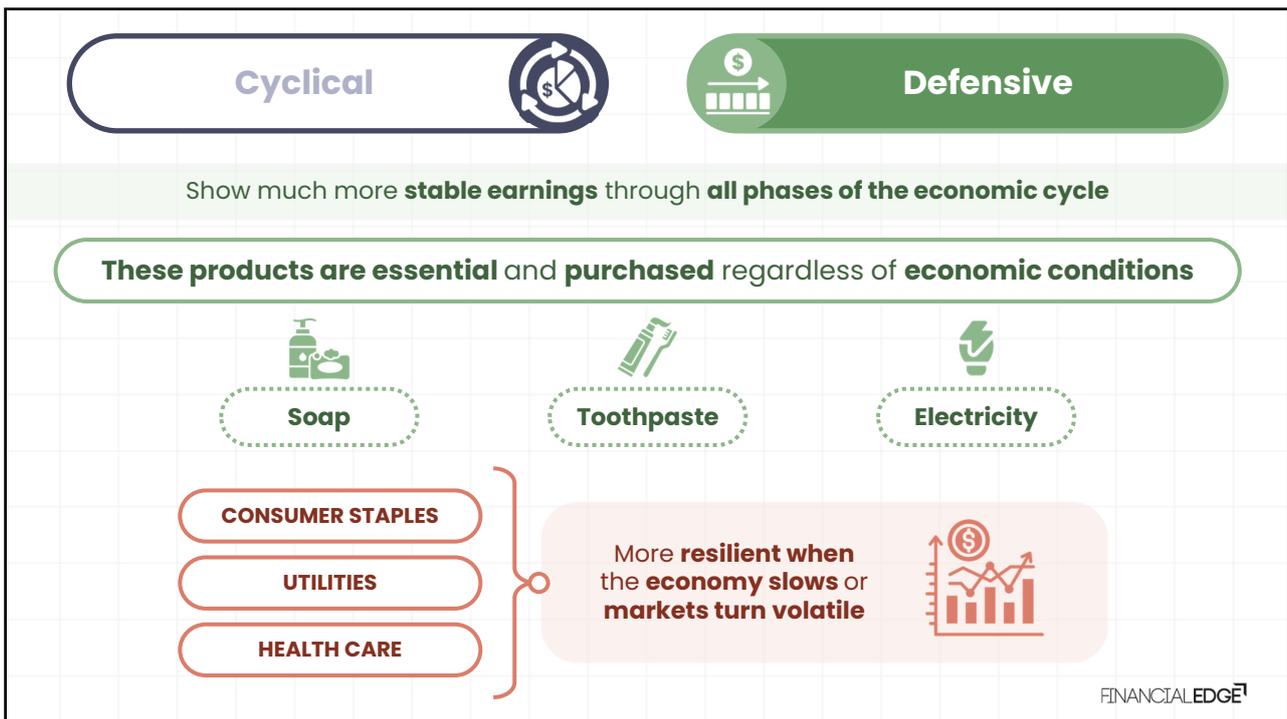
Economy **slows down**  
or **enters a recession**



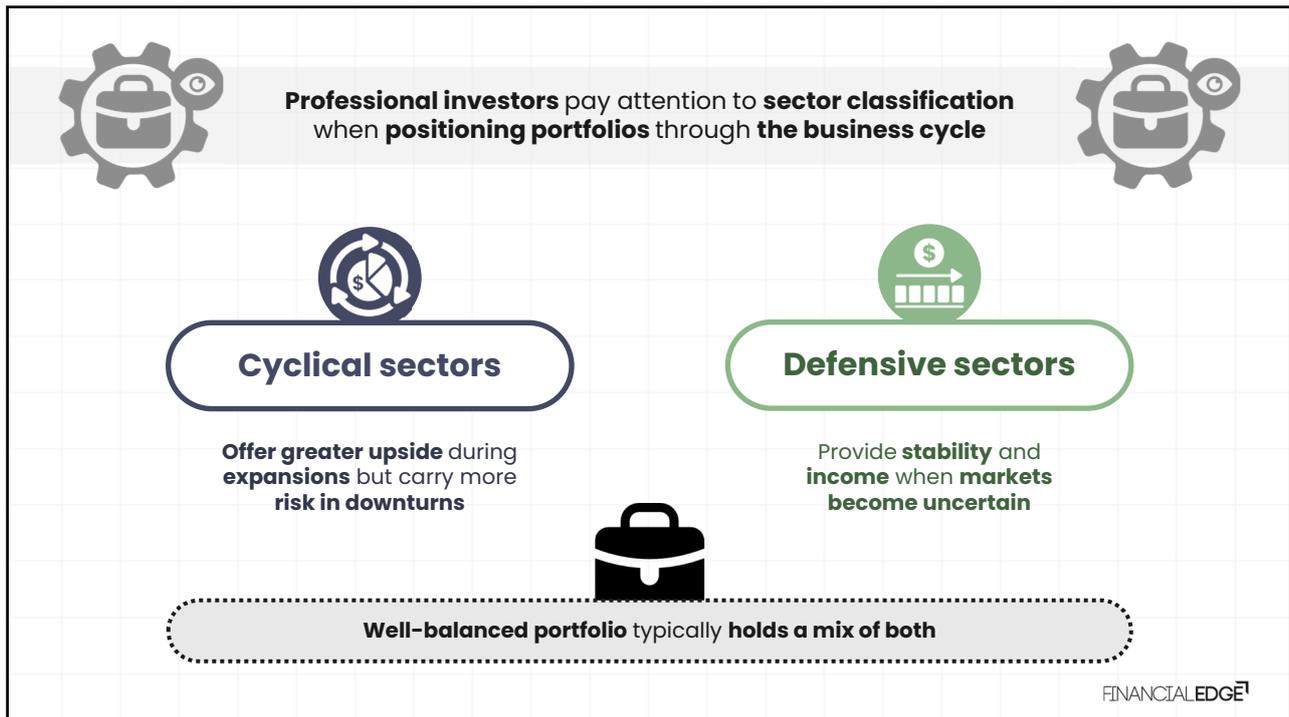
The **company's profits**  
(also share price)  
tend to **fall**

FINANCIALEDGE<sup>1</sup>

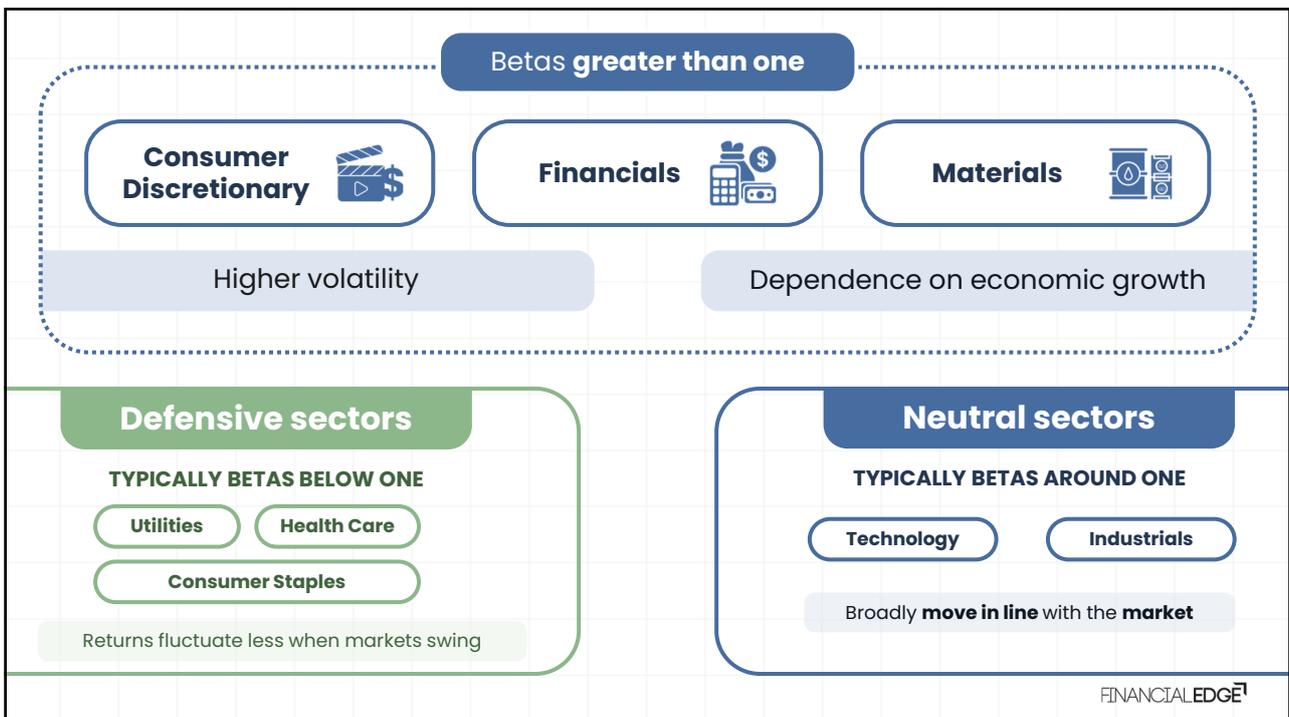
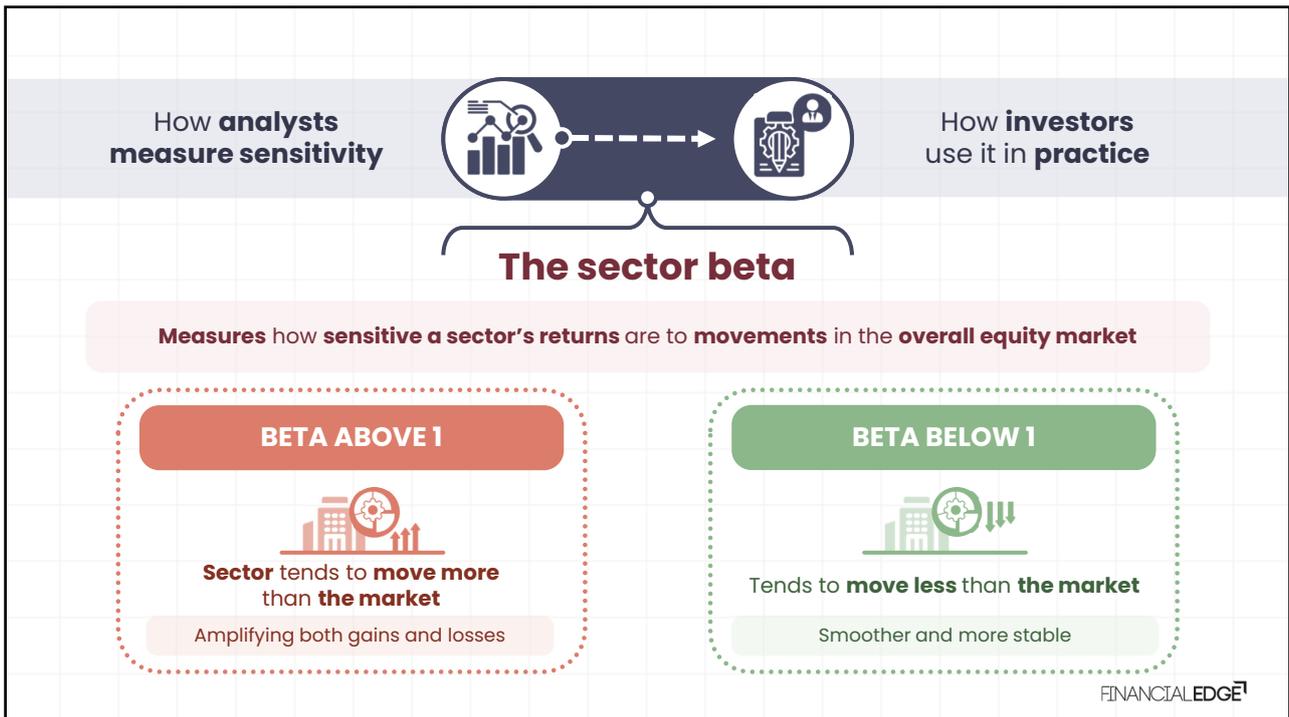


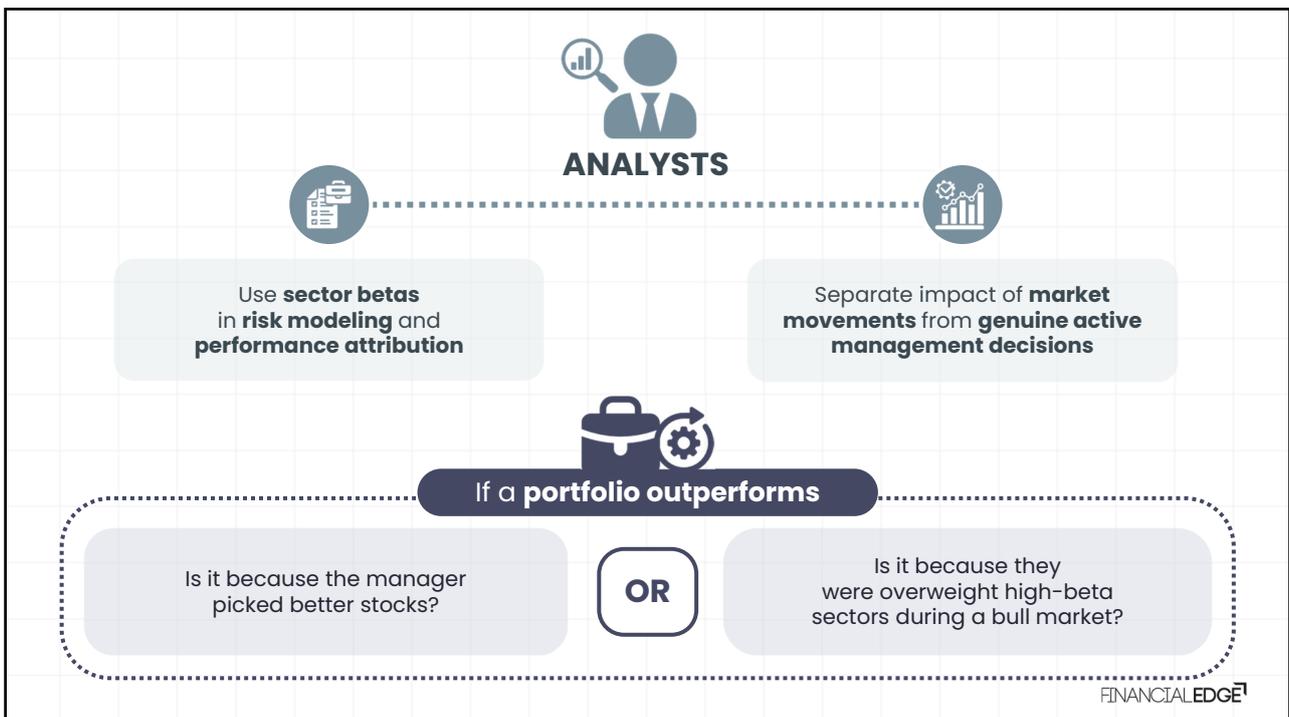
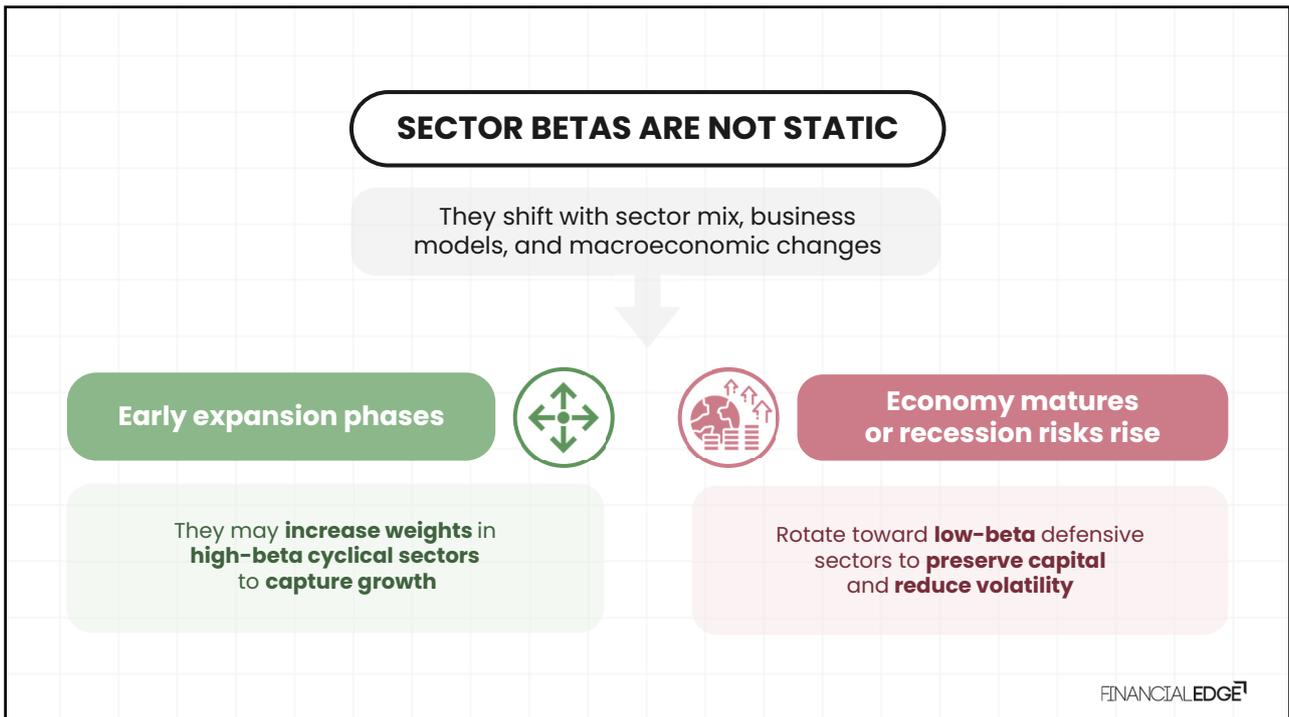






## Equity Classification Market Sectors – Beta





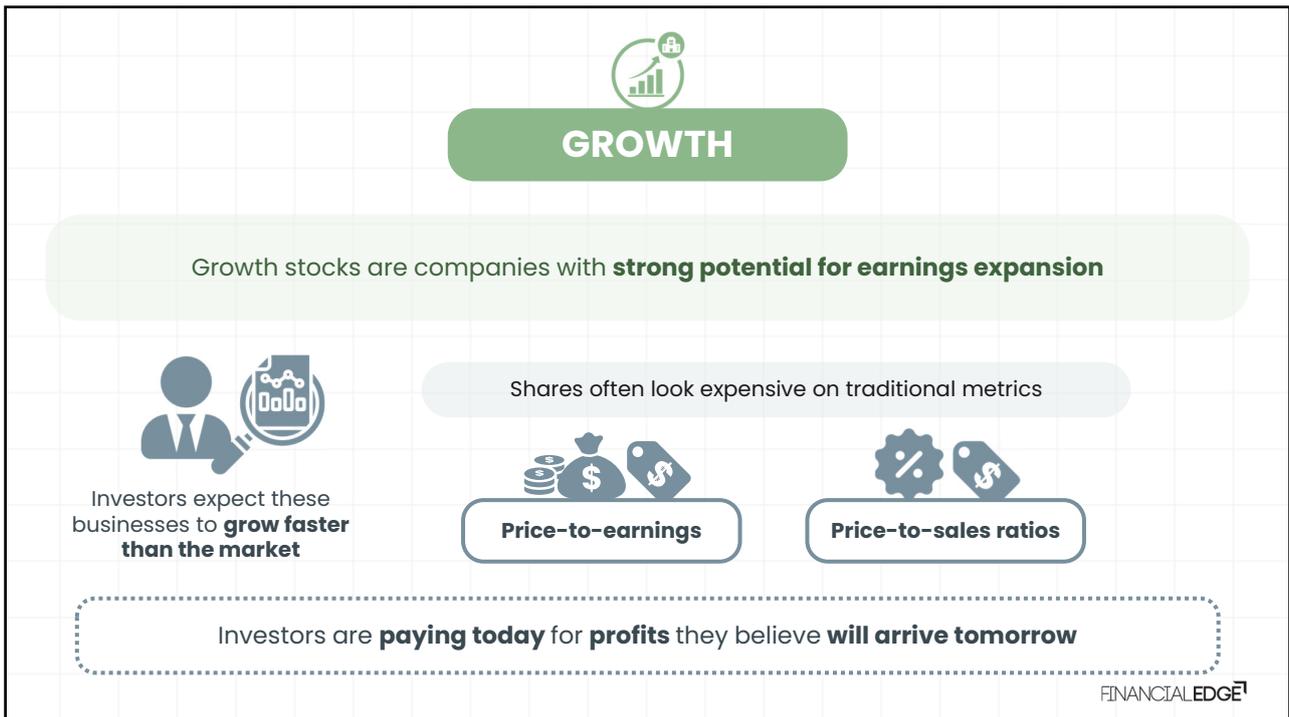
# Equity Classification - Equity Styles



**GROWTH**



**VALUE**



**GROWTH**

Growth stocks are companies with **strong potential for earnings expansion**

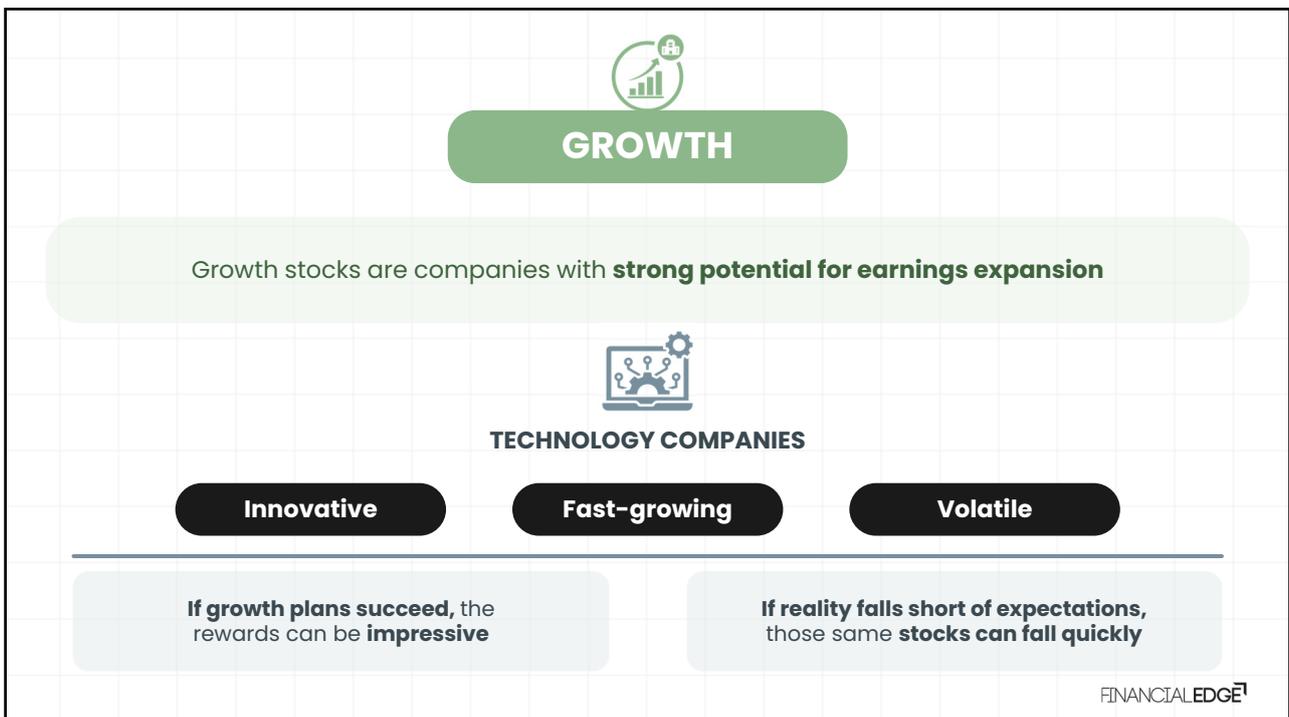
Investors expect these businesses to **grow faster than the market**

Shares often look expensive on traditional metrics

- Price-to-earnings
- Price-to-sales ratios

Investors are **paying today** for **profits** they believe **will arrive tomorrow**

FINANCIALEDGE<sup>1</sup>



**GROWTH**

Growth stocks are companies with **strong potential for earnings expansion**

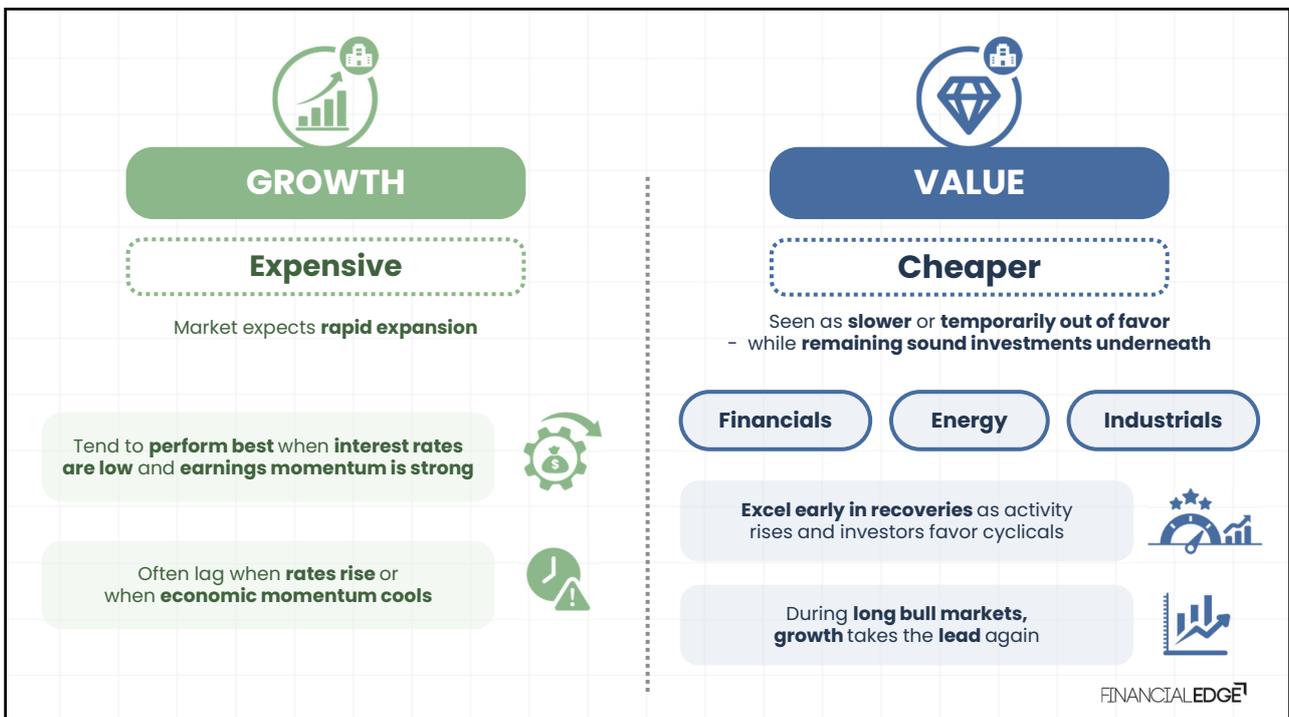
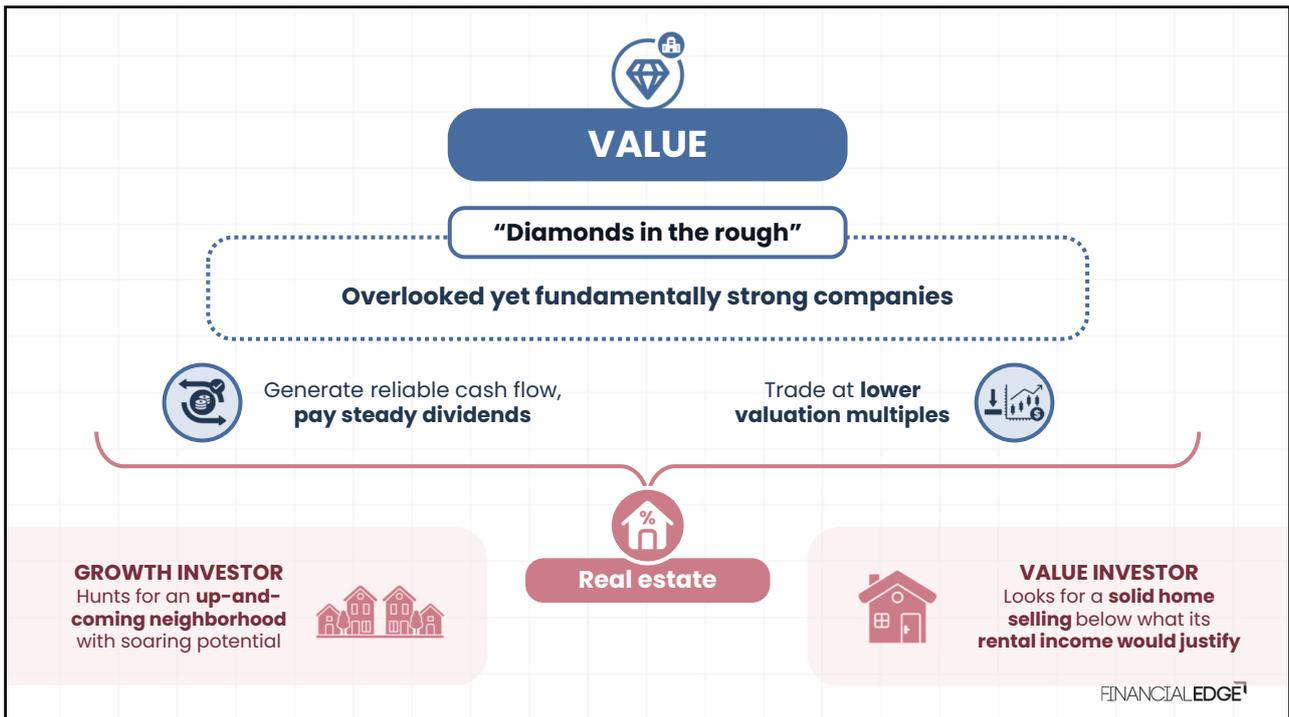
**TECHNOLOGY COMPANIES**

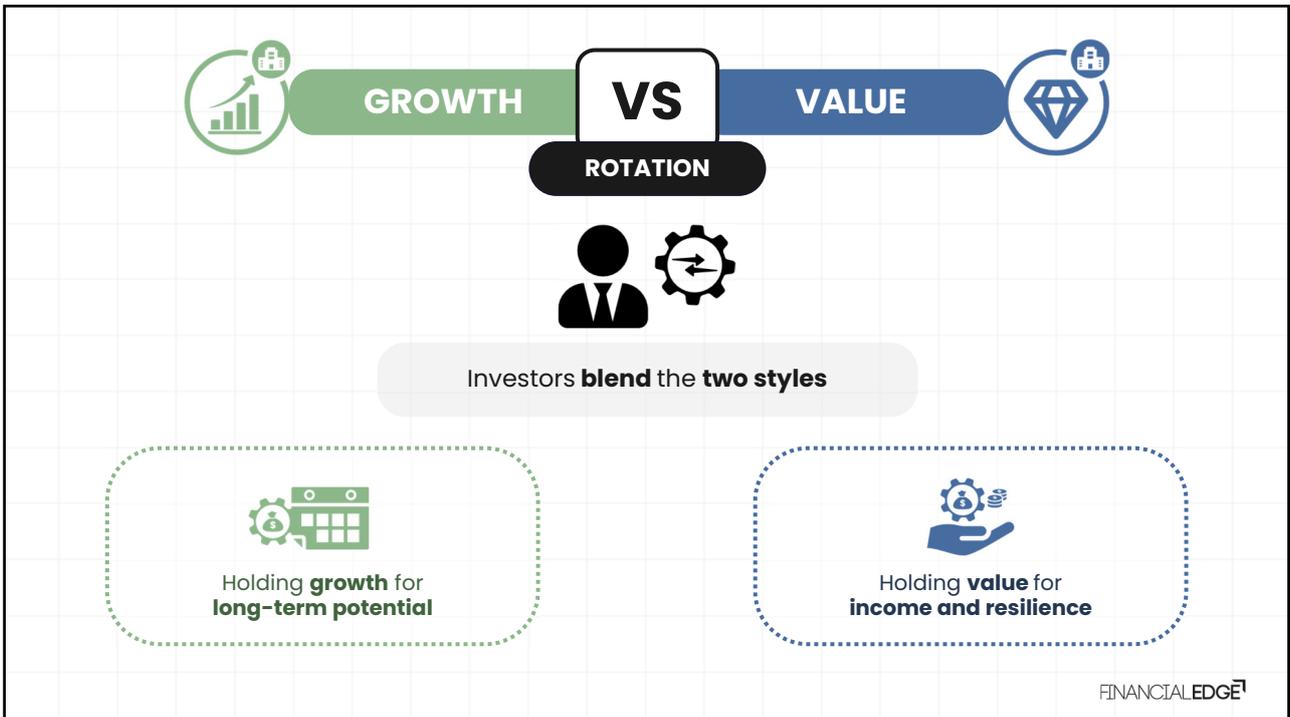
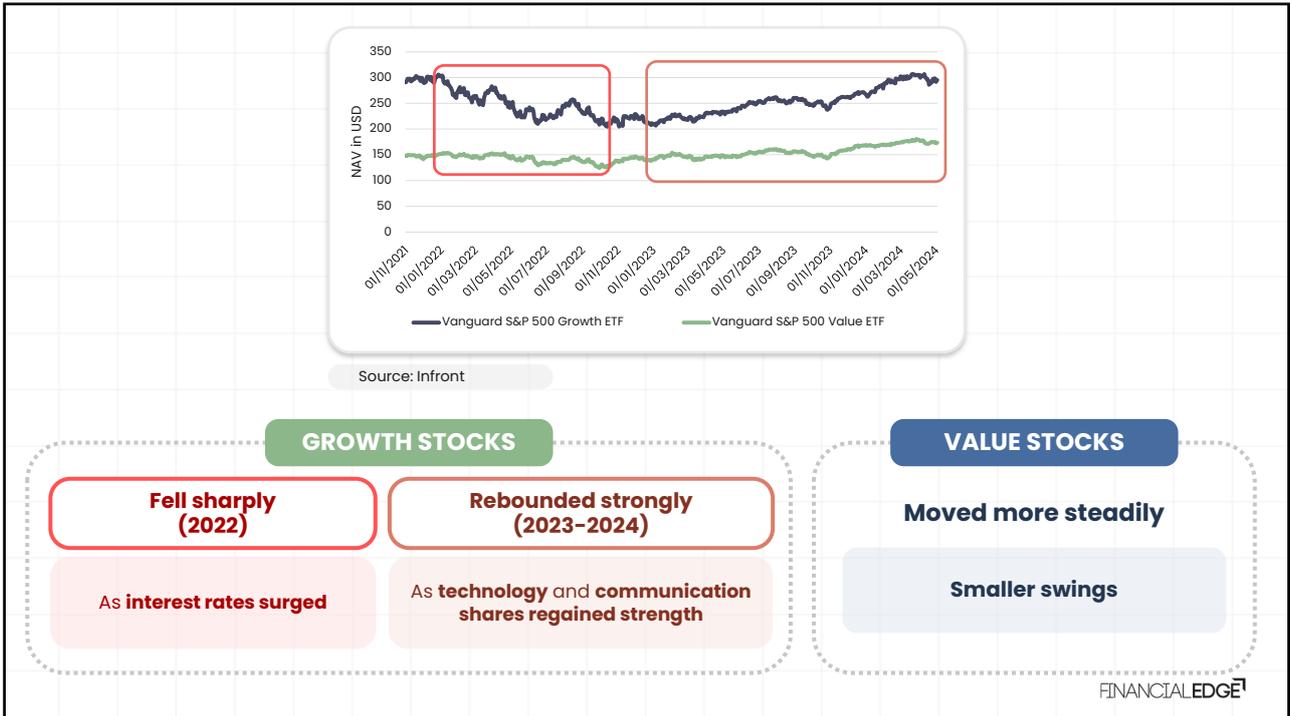
- Innovative
- Fast-growing
- Volatile

If growth plans succeed, the rewards can be **impressive**

If reality falls short of expectations, those same **stocks can fall quickly**

FINANCIALEDGE<sup>1</sup>





# Market Capitalization Categories

FINANCIALEDGE<sup>1</sup>

## Market Capitalization

Represents the **total market value of a company's equity**



CALCULATED



Share Price

\*

Number of shares  
outstanding

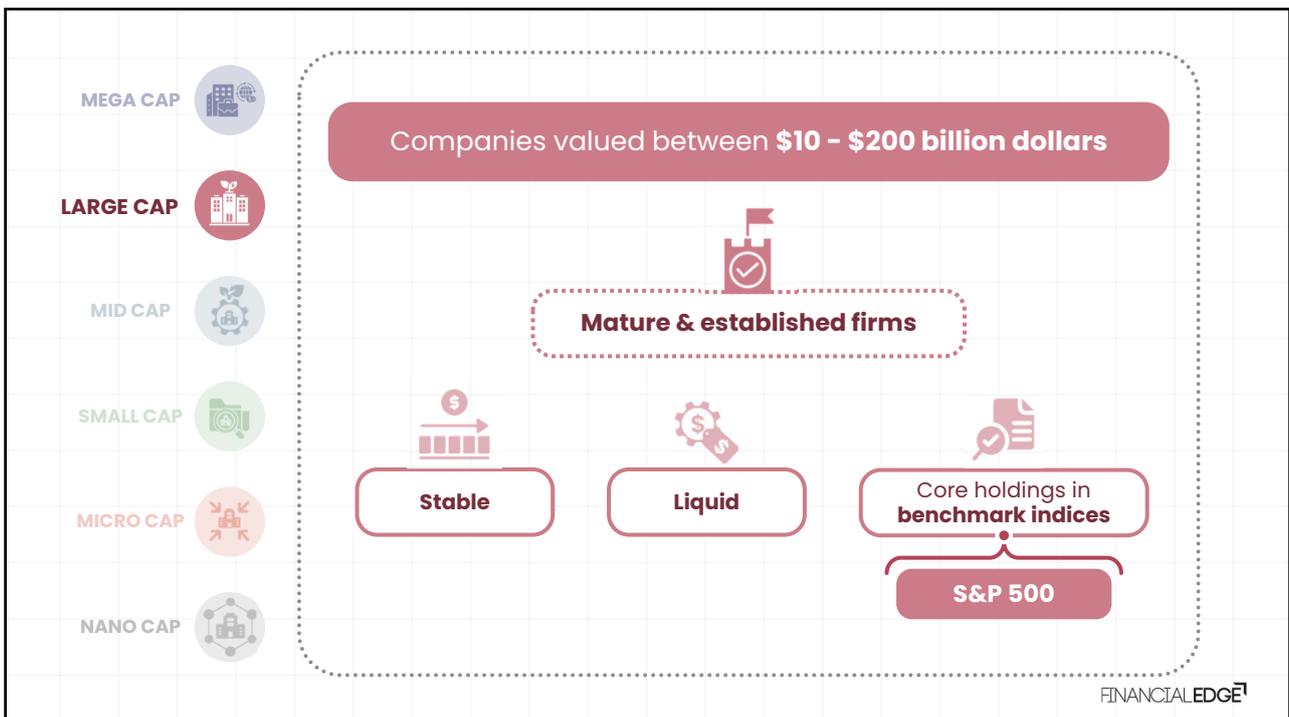
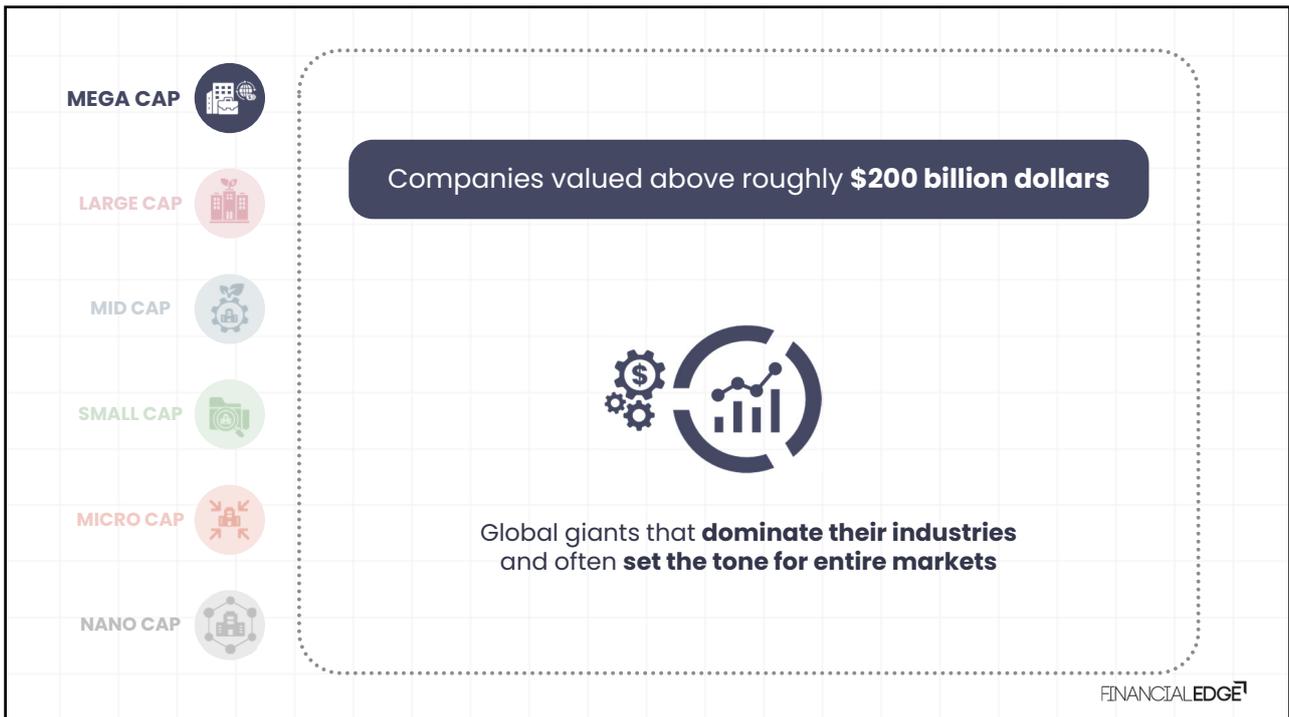
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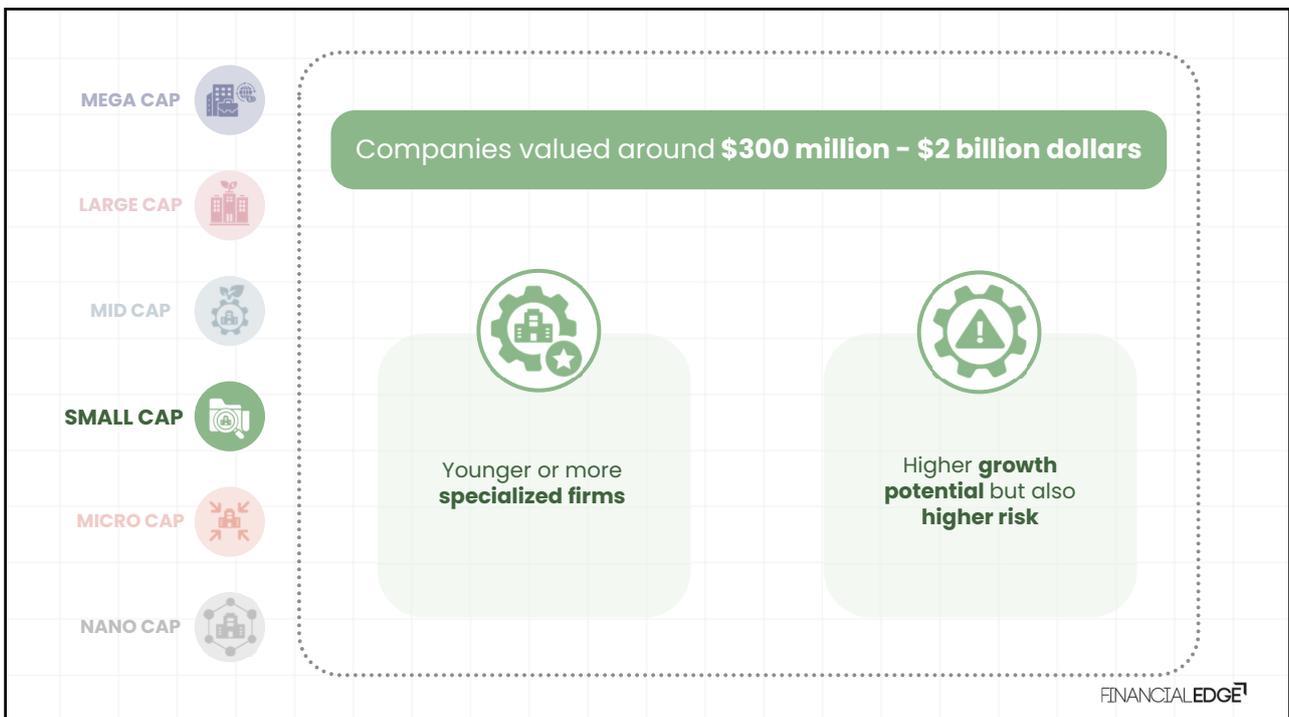
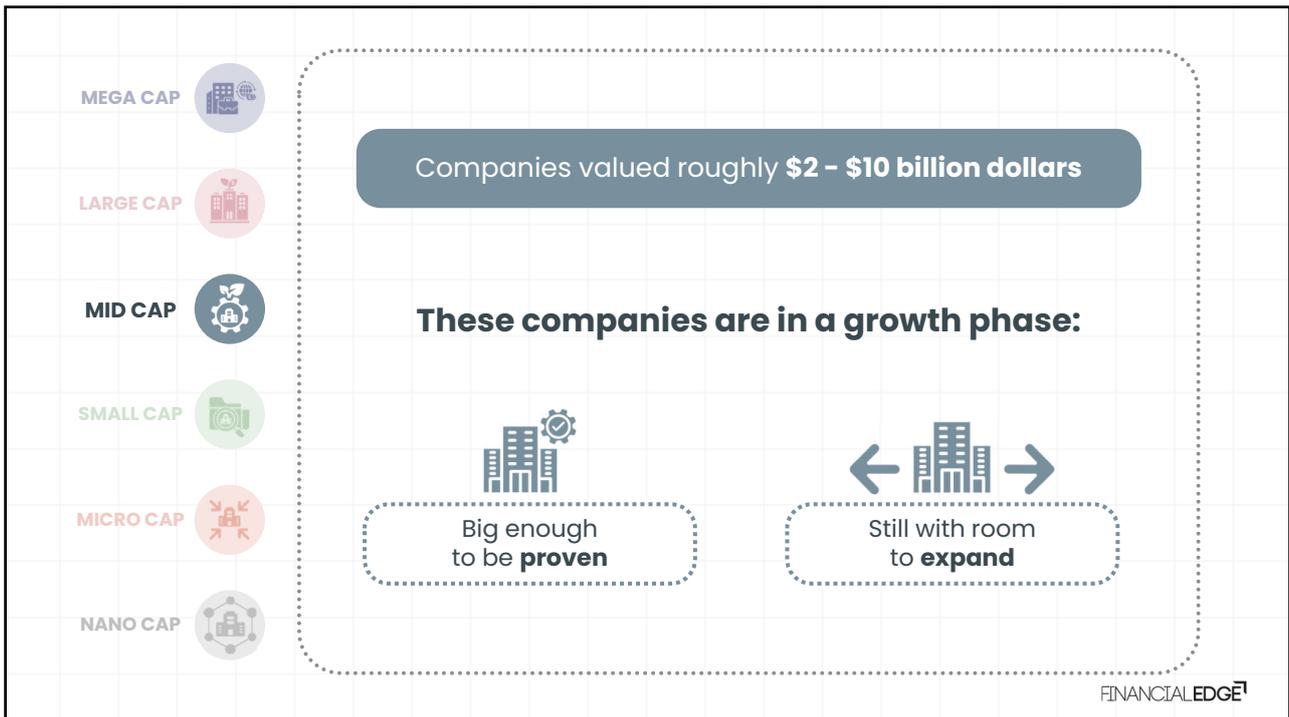
Market Capitalization

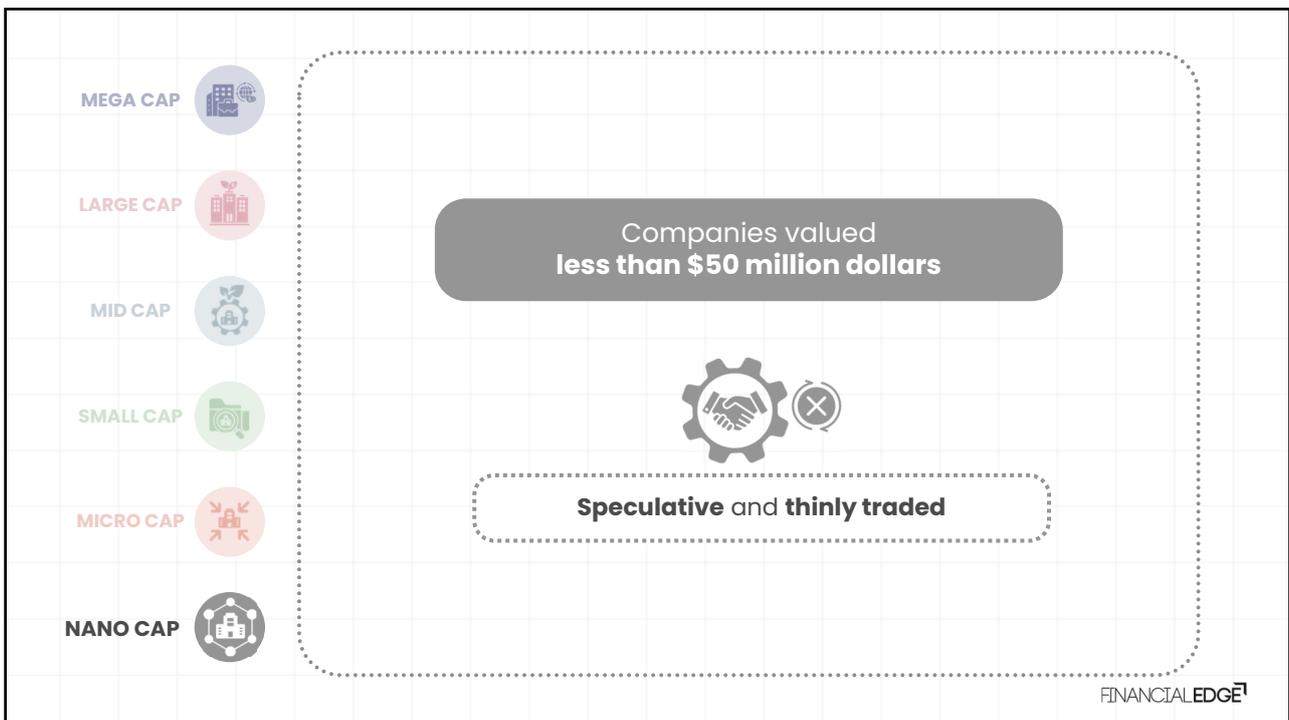
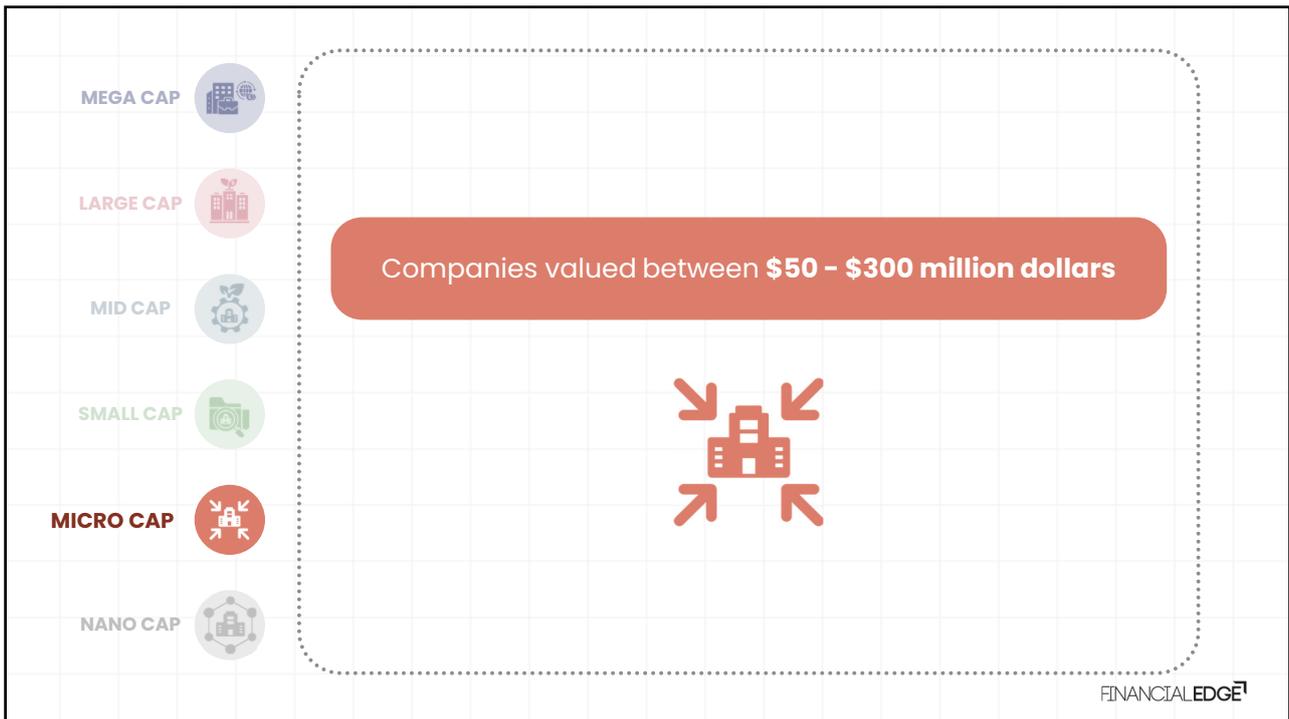


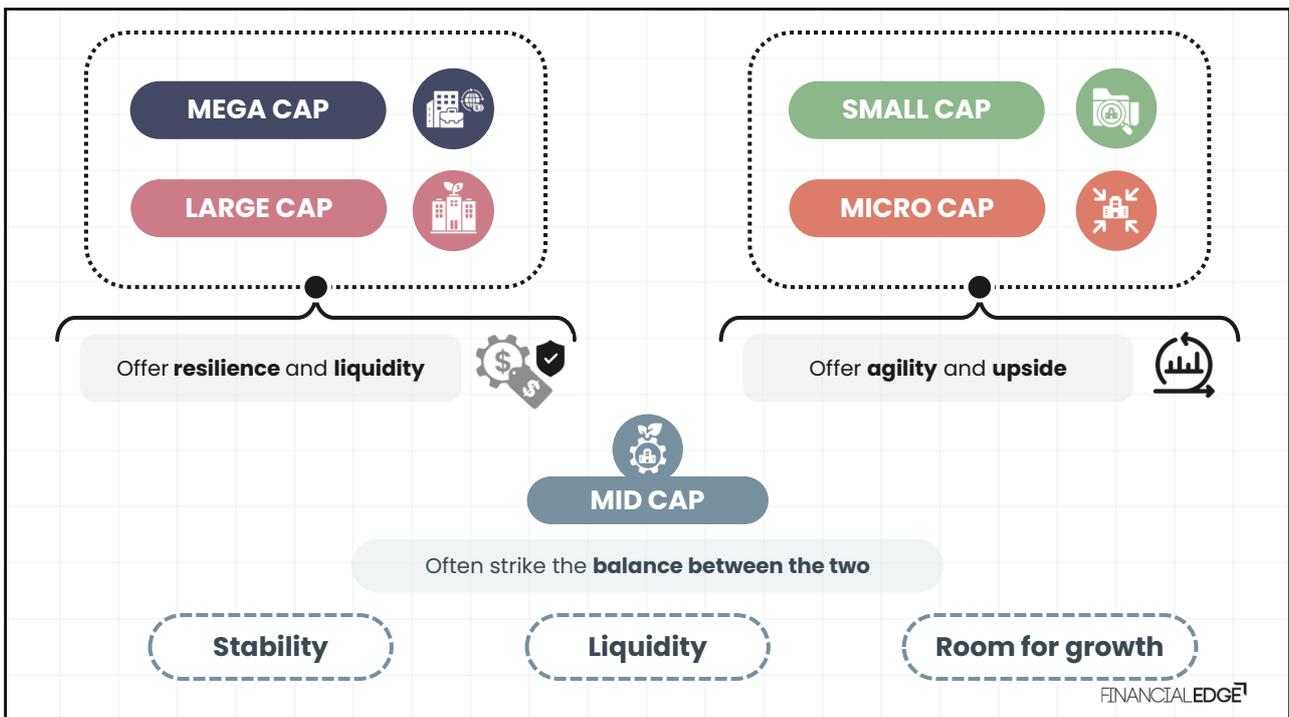
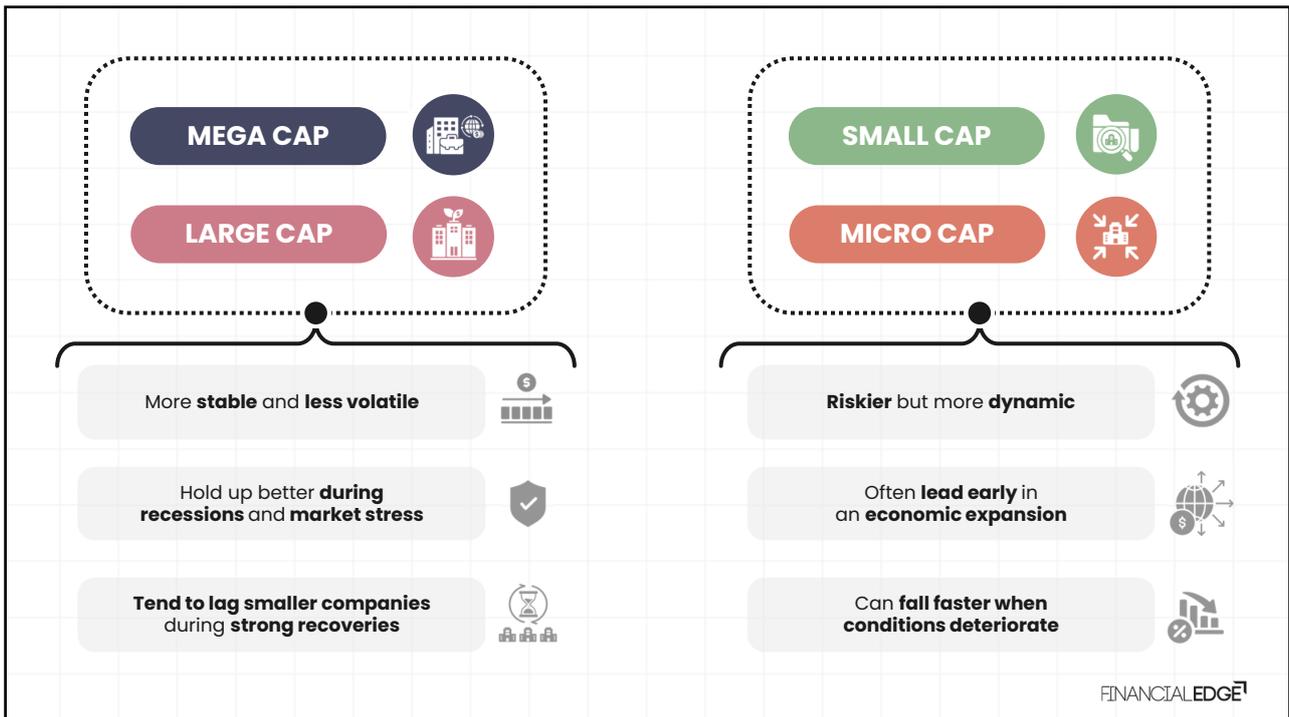
We usually use **free-float market capitalization**, which **focuses** on the **shares** that are **actively available for public trading**

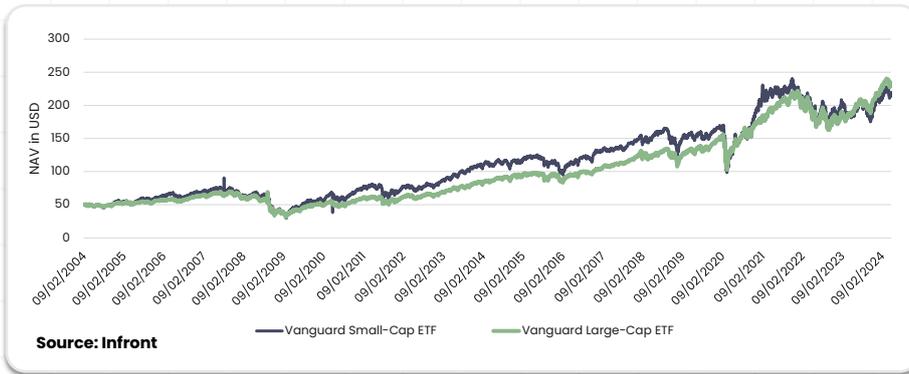
FINANCIALEDGE<sup>1</sup>











**SMALL-CAP STOCKS**

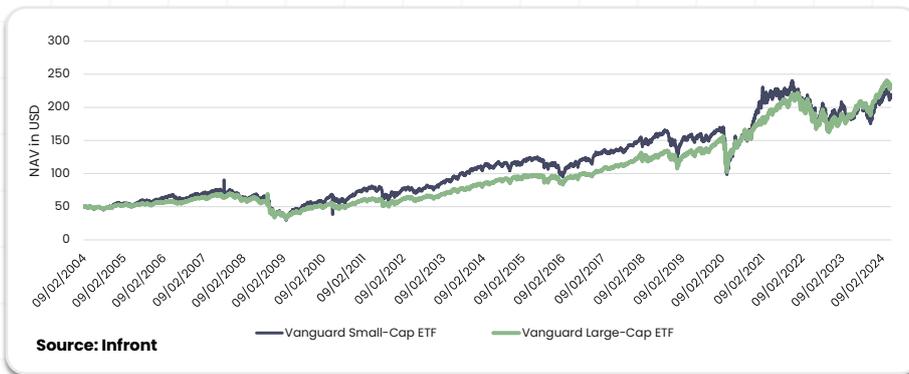
Experience **wider swings**

Stronger rallies in bull markets

Deeper declines in downturns

**LARGE-CAP STOCKS**

Move more smoothly, with fewer sharp jumps or drops



**SMALL-CAP STOCKS**

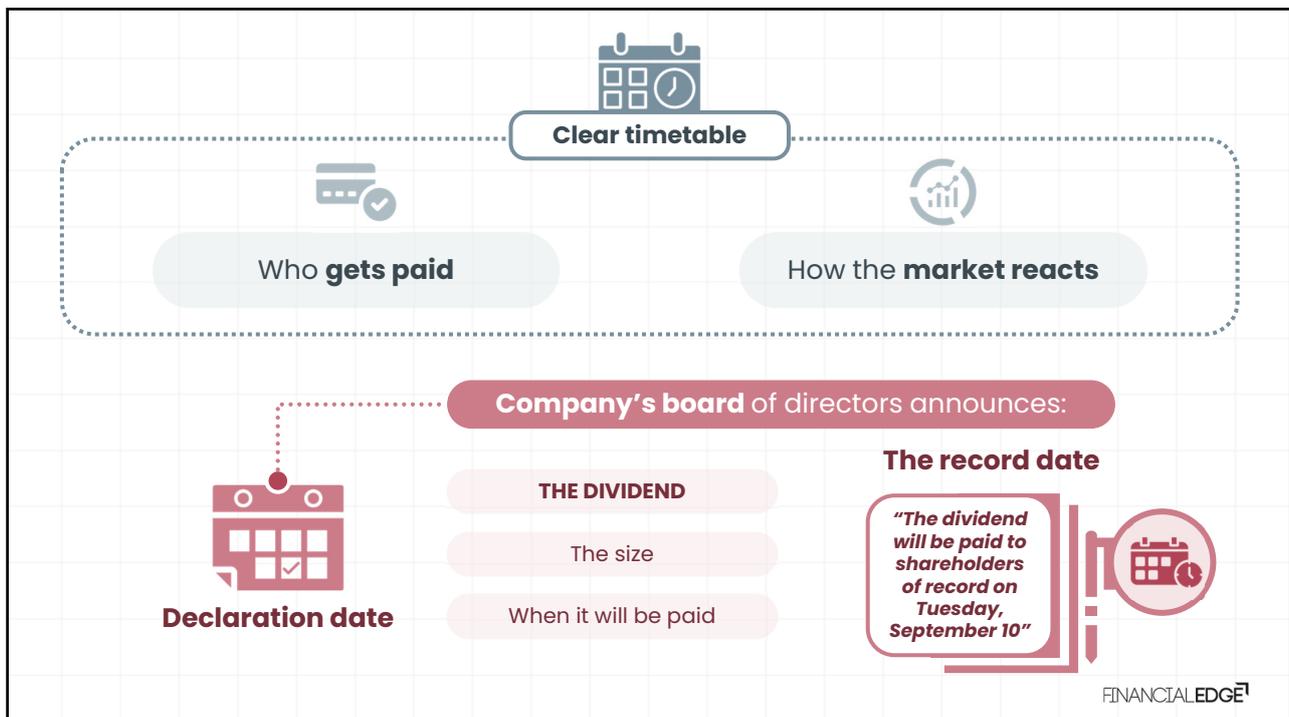
Usually get there with **more volatility**

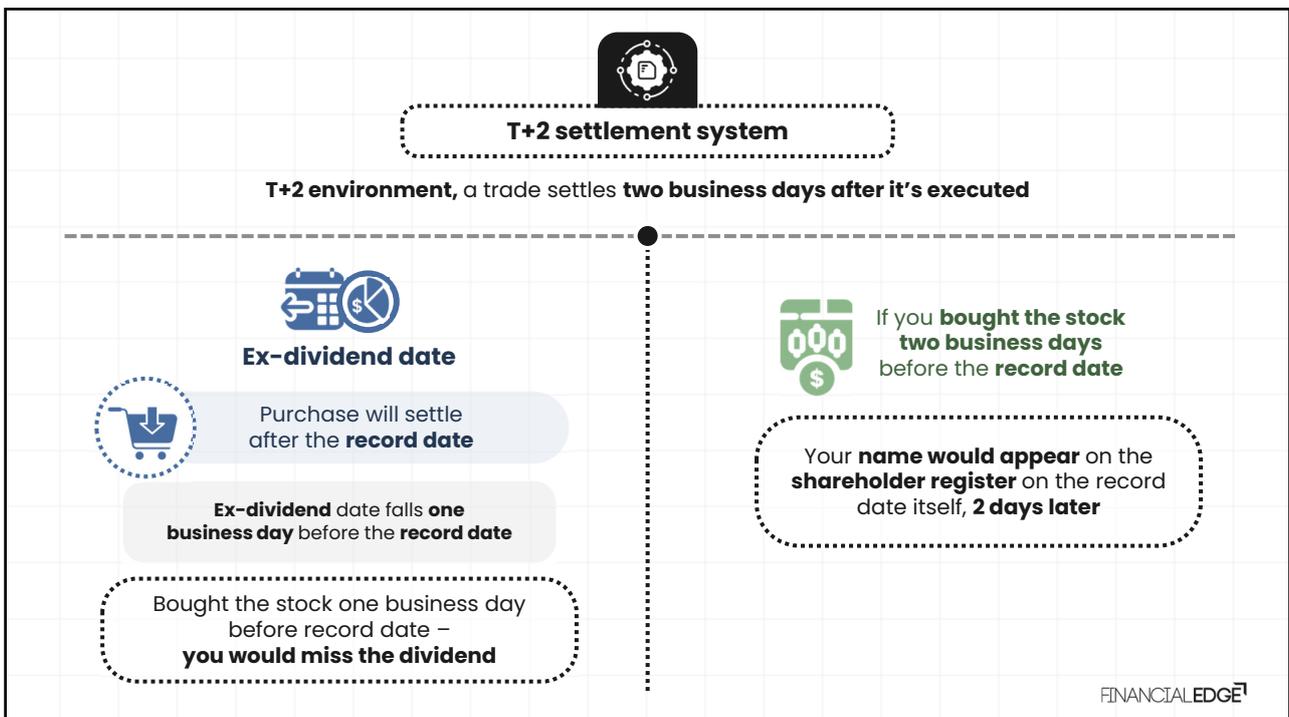
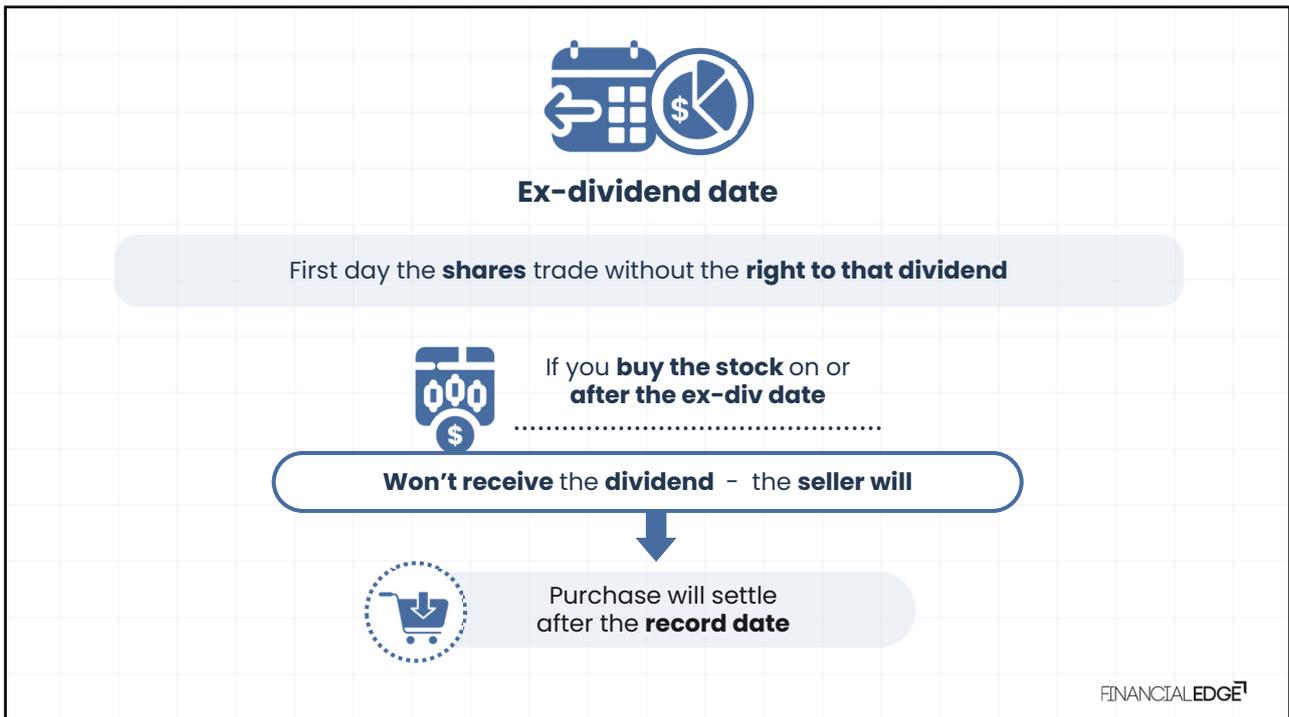
  
**Higher rewards**

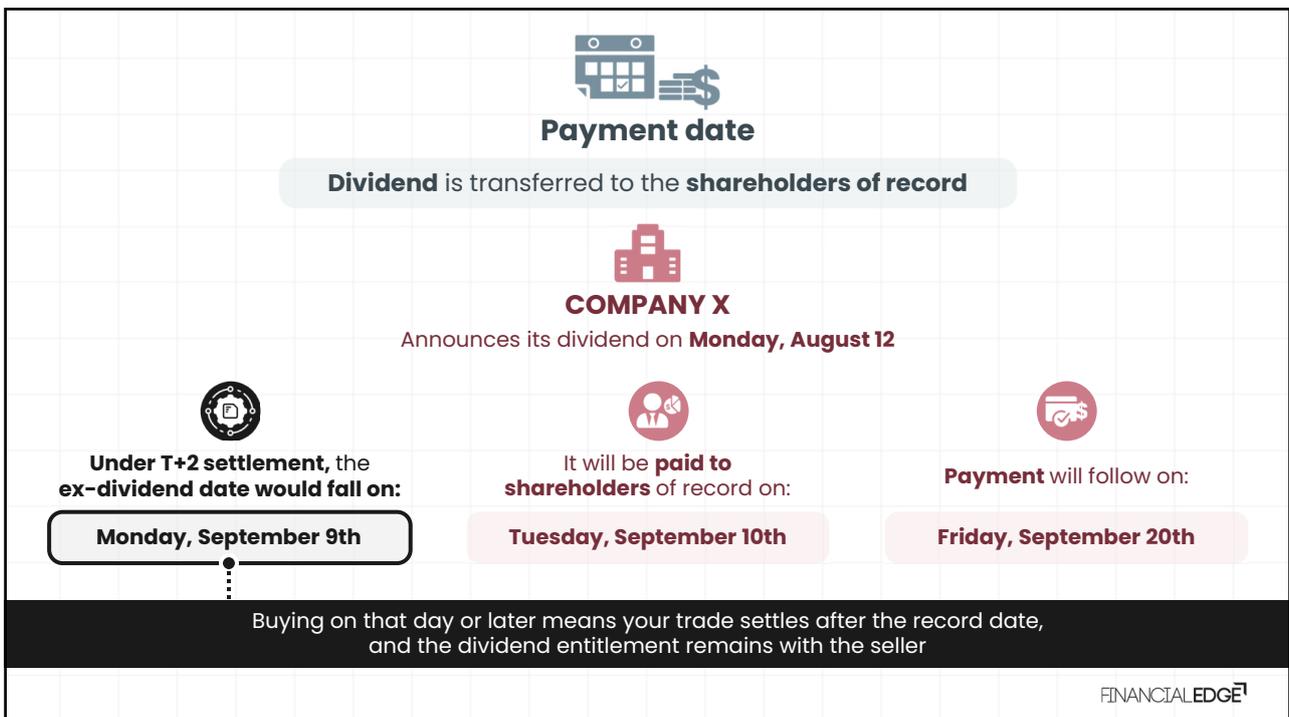
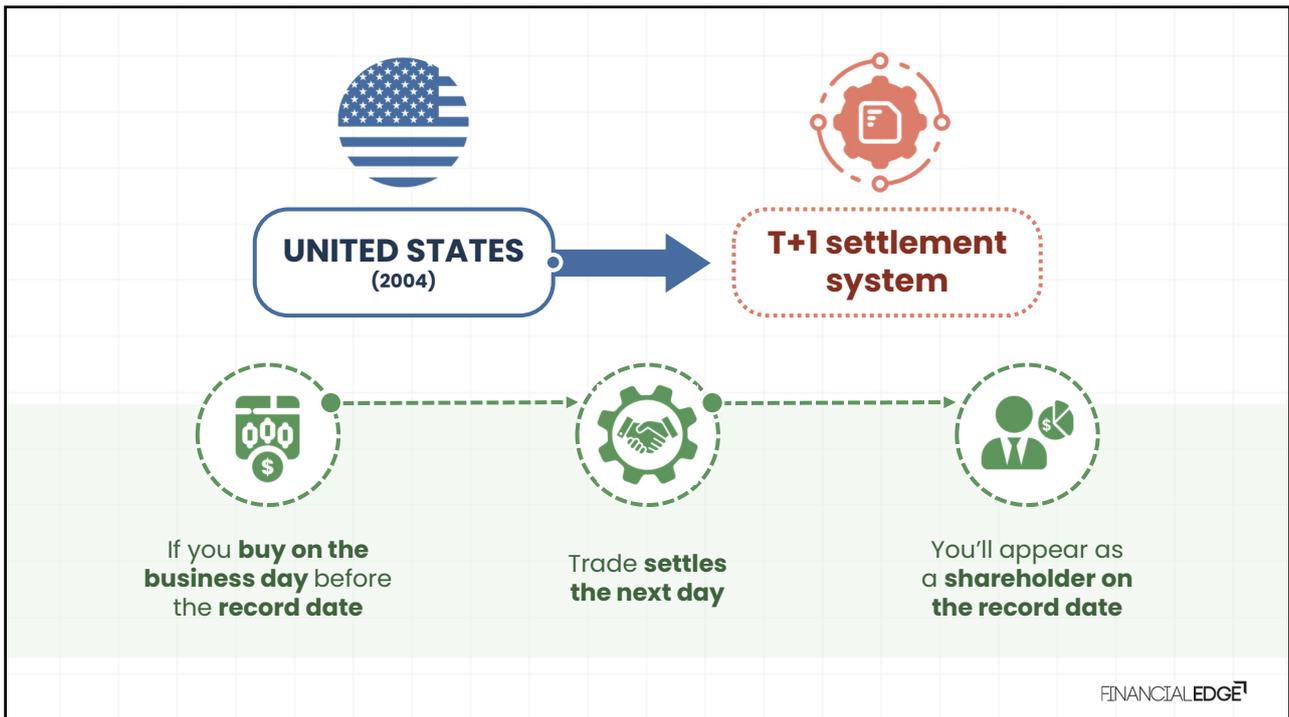
  
**Higher portfolio risk**

**LARGE-CAP STOCKS**

# The Dividend Timeline







## What happens to the share price?



Ex-dividend date



The **share price** drops by roughly the amount of **the dividend**

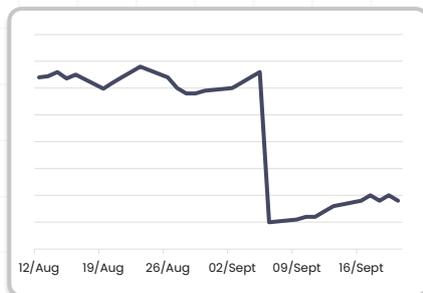


Company's cash decreases

Equity value decreases



Reflected in the stock price



Price steps down on the **ex-div date** before returning to **normal trading patterns**

Knowing **dividend dates** and **dividend amounts** is particularly important for **two main groups of market participants**:



**INCOME INVESTORS**

Depend on dividends for regular returns



**DERIVATIVES TRADERS**

Expected dividends influence the forward price of equities and futures contracts

FINANCIALEDGE<sup>1</sup>

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