THE MAIN FEATURES OF STOCKS AND THE IMPORTANCE OF STOCK MARKET

T. Myakota, *student F-54*

In the investment world, a share of stock (also referred to as equity share) represents a share of ownership in a corporation or company.

The first company to issue shares of stock after the Middle Ages was the Dutch East India Company in 1606. Economic historians find the Dutch stock market of the 1600s particularly interesting: there is clear documentation of the use of stock futures, stock options, short selling, the use of credit to purchase shares, a speculative bubble that crashed in 1695, and a change in fashion that unfolded and reverted in time with the market.

Stock typically takes the form of shares of either common stock or preferred stock. As a unit of ownership, common stock typically carries voting rights that can be exercised in corporate decisions. Preferred stock differs from common stock in that it typically does not carry voting rights but is legally entitled to receive a certain level of dividend payments before any dividends can be issued to other shareholders.

A stock derivative is any financial instrument which has a value that is dependent on the price of the underlying stock. Futures and options are the main types of derivatives on stocks.

Both private and public traded companies have shareholders. A shareholder (or stockholder) is an individual or company (including a corporation) that legally owns one or more shares of stock in a joint stock company.

Shareholders are granted special privileges depending on the class of stock, including the right to vote on matters such as elections to the board of directors, the right to share in distributions of the company's income, the right to purchase new shares issued by the company, and the right to a company's assets during a liquidation of the company.

Even though the board of directors runs the company, the shareholder has some impact on the company's policy, as the shareholders elect the board of directors. Each shareholder typically has a percentage of votes equal to the percentage of shares he or she owns.

Owning shares does not mean responsibility for liabilities. If a company goes broke and has to default on loans, the shareholders are not liable in any way. However, all money obtained by converting assets into cash will be used to repay loans and other debts first, so that shareholders cannot receive any money unless and until creditors have been paid.

There are various methods of buying and financing stocks. The most common means is through a stock broker. A stock broker arranges the transfer of stock from a seller to a buyer. There are other ways of buying stock besides through a broker. One way is directly from the company itself. If at least one share is owned, most companies will allow the purchase of shares directly from the company through their investor relations departments.

When it comes to financing a purchase of stocks there are two ways: purchasing stock with money that is currently in the buyer's ownership, or by buying stock on margin. In margin buying, the trader borrows money (at interest) to buy a stock and hopes for it to rise.

Selling stock is similar to buying stock. Generally, the investor wants to buy low and sell high. As with buying a stock, there is a transaction fee for the broker's efforts in arranging the transfer of stock from a seller to a buyer.

Most trades are actually done through brokers listed with a stock exchange. A stock market is a public market for the trading of company stock and derivatives at an agreed price. The stock market in the United States is NYSE while in Canada, it is the Toronto Stock Exchange. Major European examples of stock exchanges include the London Stock Exchange, Paris Bourse, and the Deutsche Börse. Asian examples include the Tokyo Stock Exchange, the Hong Kong Stock Exchange, and the Bombay Stock Exchange. In Latin America, there are such exchanges as the BM&F Bovespa and the BMV.

The stock market is one of the most important sources for companies to raise money. This allows businesses to be publicly traded, or raise additional capital by selling shares of ownership of the company in a public market.

History has shown that the price of shares and other assets is an important part of the dynamics of economic activity, and can influence or be an indicator of social mood. An economy where the stock market is on the rise is considered to be an up and coming economy. In fact, the stock market is often considered the primary indicator of a country's economic development.

I. A. Morozova, *EL Adviser*