

Securities firms and investment banks

Securities firms and investment banks

- Primarily help net suppliers of funds (e.g. households) transfer funds to net users of funds (e.g. businesses)
- at a low cost
- with a maximum degree of efficiency.

Securities firms and investment banks

- Do not transform the securities issued by the net users of funds into claims that may be 'more' attractive to the net suppliers of funds.
- Like banks
- Serve as intermediaries between fund suppliers and fund users.

Investment banks

- Help corporations or government to raise funds from primary market by issue of debt and equity securities.
- Organize, underwrite and place securities in money and capital markets.
- E.g. Alawwal capital company, Al-Khabeer capital

Securities firms

- Assist trading securities in secondary markets
- Brokerage services or market making
- E.g. AlBilad investment company, Aljazira capital company

Securities firms and investment banks

- Largest firms in the industry perform multiple services (e.g. underwriting and brokerage services)
- Global Investment House

Securities firms and investment banks

- Other firms concentrate their services in one area only i.e. either in securities trading or securities underwriting.
- NCB capital

Securities firms and investment banks

- Third group of companies.
- Investment bank subsidiaries of commercial banks
- Discount brokers
- Regional securities firms
- Specialized electronic trading firms
- Venture capital firms

Investment banking

- First time debt and equity issues occur through *initial public offerings* (IPOs)
- New issues from a firm whose debt or equity is already traded are called *seasoned equity offerings*. (SEOs)

Investment banking

- A ***private placement*** is a securities issue that is placed with one or a few large institutional investors
- Agent for a fee
- ***Public offerings*** are offered to public at large
- IBs act only as an agent in ***best efforts underwriting***
- IBs act as principals in ***firm commitments***

Venture capital

- A professionally managed pool of money used to finance new and often high-risk firms.
- Provide capital to untried company and its managers in return for an equity investment in the firm.
- Do not make outright loans

Venture capital

- Purchase an equity interest that gives rights and privileges like other owners.
- Venture capital and private equity are used interchangeably.

Venture capital

- Types:
- ***Institutional venture capital firms:*** Business entities whose sole purpose is to find and fund the most promising new firms.
- ***Angel venture capitalists:*** Wealthy individuals who make equity investments.

Market making

- Involves the creation of secondary market in an asset by a securities firm or investment bank
- In addition to being primary dealers in government securities and underwriters of corporate bonds and equities, investment bankers make a secondary market in these instruments.

Market making

- Either principal or agency transactions.
- Agency transactions:
- Two-way transactions made on behalf of customers – acting as a stockbroker or dealer for a fee.

Market making

- Principal transactions:
- Seeks to profit on the price movements of securities
- Either takes long or short inventory positions for its own account

Trading

- 1. Position trading
- 2. Pure arbitrage
- 3. Risk arbitrage
- 4. Program trading
- 5. Stock brokerage
- 6. Electronic brokerage

Position trading

- Involves purchases of large block of securities on the expectation of a favourable price move
- Long or short positions for intervals up to several weeks or even months
- Unlike day traders, take relatively longer views of market trends
- Such positions also facilitate the smooth functioning of the secondary markets in such securities

Pure arbitrage

- Entails buying an asset in one market at one price and selling it immediately in another market at a higher price
- Attempt to profit from price discrepancies between spot and future prices

Risk arbitrage

- Involves buying securities in anticipation of some information release such as merger or Central bank's interest rate announcement.
- Risk arbitrage because if the event does not actually occur, trader stands to lose money

Program trading

- Simultaneous buying and selling of a portfolio of at least 15 different stocks using computer programs to initiate such trades
- Like pure arbitrage but with the help of computer programme

Stock brokerage

- Involves trading of securities on behalf of individuals who want to transact in the money or capital markets

Electronic brokerage

- Via internet

Trading

- Can be conducted on behalf of a customer as an agent
- Or
- On own account as principal

Mutual funds

- Involves managing pools of assets such as closed and open-end mutual funds.

Other service functions

- Custody and escrow services, clearance and settlement services and research and advisory services.