02. Financial Markets

Unpacking the exchange markets of shares and bonds that my**super** invests in.

Welcome to an insider's guide to investing with my**super**. As a member, it's worth knowing the ins and outs of how your money is working for you. Not that you have to do anything, but to achieve your goals it helps to understand how your investment lives and breathes.

Guide 02.
is an explanation
of the exchange markets.

Here we unpack the places that your my**super** money gets invested in shares, and the pieces of that puzzle.

What are financial markets?

Financial markets are where shares and bonds are traded, and are also known as public capital markets.

Public capital markets are important because they are where capital can be raised for private and public enterprises and government. Investors can either lend money which is paid back with interest, or invest in shares and share in the profits.

How does my**super** invest in financial markets?

Public capital markets are where the my**super** superannuation scheme invests some of its members' money, depending on the fund they've selected. A conservative (low risk) fund would invest more in income assets, whereas a growth fund (high risk) invests more in shares.

What is the stock exchange?

A stock exchange is where companies can list their shares for investors to trade. In New Zealand the exchange is called the New Zealand Exchange (**NZX**).

The New Zealand Exchange has two parts: the primary market and the secondary market.

The primary market is where companies sell new stocks and bonds to the public for the first time (known as a new issue, float or initial public offering or IPO).

The secondary market is where the stocks and bonds can be traded (bought and sold) by investors, at price levels determined by supply and demand in the market.

What are stock market indices?

Stock market indices are where you can see the performance of the stock market. They are used as benchmarks to measure how well investments are doing, and determine the direction of stock prices.

The most regularly used market indices contain shares of large companies on a nation's largest stock exchange. Here are some examples.

Examples of world indices

	S&P/NZX 50	NZX sets New Zealand's benchmark with 50 leading companies in New Zealand.
	S&P/ASX 200	The S&P/ASX 200 consists of Australian companies setting the benchmark index in Australia.
	Dow Jones	Dow Jones Industrial Average (DJIA) is one of the most watched stock indices in the world, containing 30 large cap stocks from companies such as General Electric, Microsoft, Coca-Cola and Exxon.
	S&P (Standard & Poor's)	S&P maintains a range of indices. The most widely followed index is the S&P 500 containing 500 large cap American Stocks.
	NASDAQ	The NASDAQ 100 Index includes 100 of the largest US securities listed on the NASDAQ stock exchange.
	FTSE	The United Kingdom's key main benchmark index. The FTSE 100 index comprises 100 of the largest listed companies in the United Kingdom.
	DAX	German blue chip stock market index trading on the Frankfurt Stock Exchange.
	CAC 40	French benchmark stock market index which represents the 40 most significant values on the Euronext Paris. It is one of the main national indices of the pan-European stock exchange group Euronext.
	Nikkei	Nikkei 225 is a stock market index for the Tokyo Stock Exchange.

An example of stock exchange primary and secondary markets

Understanding how a company comes to be on a stock exchange primary or secondary market helps to understand what my**super** funds are invested in, and why they fluctuate as world markets go up and down.

One example is a company wanting to expand their business and needing additional funds. They need to decide how they're going to access those funds. Either through a bank loan, or they may consider 'going public' and listing on an exchange.

If the company goes public, they decide which capital raising strategy to take. They can either get investors to lend money in return for interest by issuing debt securities (**DCM**), or they can issue shares for investors to purchase through equity raising (**ECM**).

If the funds are raised through debt, the company can launch to potential investors through an initial public offering (**IPO**) on the primary market.

If funds are raised through equity raising, all listed offers can be bought and sold on the secondary market through a sharebroker.

Investors can view the terms of the investment opportunity through a prospectus and investment statement or product disclosure statement issued by the company, in order to make an informed decision.

How the participants of the stock market come together

Understanding the different roles of lenders, advisors and companies can help put the pieces of the stock market together.

New Zealand Exchange (**NZX**)	This is the market where companies can list their shares/equities and debt securities for trading. It's called the stock exchange and takes care of two needs; a business' need for funds and an investor's desire to invest.
Companies	There are two types of companies; private and public. Public companies can be listed on an exchange, provided they meet criteria, and then issue shares to investors who become part owners. Public companies who are not on the exchange are called unlisted, and are less liquid (harder to buy and sell) as they are not regulated and do not offer the same protection for investors.
Non-bank deposit takers	A non-bank deposit taker (NBDT) is a person or company that offers debt securities or borrows and lends money, or provides financial services. These include finance companies, credit unions and building societies. Non-bank deposit takers are registered and supervised by RBNZ. For a full legal definition of NBDT visit legislation.govt.nz
Finance companies	Finance companies are businesses who lend money to borrowers. They often have higher risk than banks as they may offer higher risk lending such as personal loans, hire purchase, vehicle equipment leasing or property development. You can invest in finance companies; however the risk depends on the quality of the organisation and their lending practises.
Credit unions and building societies	A credit union is a financial cooperative for credit and financial services. When you deposit funds into a credit union account, you become a partial owner and share the profitability of the union. A building society is a financial institution also owned by its members, offering banking and services such as savings and mortgages.
Fund managers	A fund manager pools investors' money into different managed funds, such as a group investment fund or a superannuation scheme. As your money is pooled collectively with other investors', you're able to access more shares than on your own. The fund manager makes decisions on where and when to invest on your behalf. The return depends on the risk.
Registered Financial Adviser (**RFA**)	People who advise on Category 2 products only, are required to be registered as Financial Advisers but not authorised. Category 2 products include call debt securities, bank term deposits, consumer credit contracts and many insurance products.
Authorised Financial Adviser (**AFA**)	These are the only people allowed to provide personalised advice on more complex investments including securities, such as equities and fixed interest. All AFAs are required to comply with a Code of Professional Conduct and meet minimum standards for competence, knowledge and skills, client care, ethical behaviour and ongoing professional training.

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