



# FINANCIAL MARKETS AND INSTRUMENTS: INTRODUCTION

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**THE VIEWS  
EXPRESSED  
HEREIN ARE  
PERSONAL**

# WHAT ARE YOUR EXPECTATIONS FROM THIS COURSE?

A bit more about each other  
&  
norms of the game ...

# WHY? ...

- Ms **Susan Colantuono**, CEO and founder of Leading Women says “**Women represent 50% of middle management and professional positions (in USA), but the percentages of women at the top of organizations represent not even a third of that number.**” Why? ...
- The Missing 33%™ ...
- Business+Strategic+Financial Acumen (little prior experience; advice is not given; **unexamined mindsets of mentors**)
- *That Partially Answers: Why “Finance (& specifically FMI)” ought to be appreciated by “future” Executives ..... !*
- Why “Financial Markets and Instruments” should be learnt by Future Executives?

# KNOWLEDGE OF THIS COURSE SHOULD FURTHER HELP TO ...

- ◉ Catch up with pink paper
- ◉ Not just estimate actual cost of a house to buy. But also take decisions such as – (a) flat under construction Vs ready possession; (b) actual cost of home loan; education loan, etc.; (c) managing (personal) cash flows; ...
- ◉ *Take decisions such as – Make Vs Rent Vs Buy Vs Lease.*
- ◉ Decide whether you should exercise ESOP or not?
- ◉ *Build a good portfolio of assets (stocks/bonds/real estate). By making you appreciate stuff as – (a) inflation is the worst enemy of personal wealth; (b) whether one should actively manage portfolio decisions or not?; etc.*
- ◉ That Nearly Answers: Why “Finance” ought to be \_\_\_!

# SCARY HALLOWEEN COSTUME IDEAS.....

WITCH.



FRANKENSTEIN.



FINANCIAL ADVISER.



# WHAT IS 'CAPITAL' ...

- Finance obtained by a firm
- Three types
- Interest free capital (often, strings attached)
  - ... current liabilities
- Debt capital
  - ... long-term liabilities
- Risk capital
  - ... shareholders funds



# HOW DID FINANCE GET HERE?

(ADAPTED FROM [HTTP://SSRN.COM/ABSTRACT=905867](http://ssrn.com/abstract=905867))

- ◎ **Till 1800 AD:** Industrial revolution and joint stock firms concept
- ◎ **1800-1900:** ↑ size of business unit, ↑ capex level, ↑ separation of ownership from management
- ◎ **1900-1950:** ↑ competition, ↑ entry of retail investors
- ◎ **1950-2000:** ↑ research, ↑ competition in finance world, ↑ technology/communication
- ◎ **2000-2019:** ↑ external communication (quantity), ↑ IQ, ↓ internal communication, ↓ intelligence variety  
↓ risk & uncertainty awareness



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“Sorry, but that does not make you a risk-taker.”



**“I call my invention ‘The Wheel,’ but so far I’ve been unable to attract any venture capital.”**

November 1, 2004



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“Let’s change our strategy. You start fetching the paper, and I’ll handle the investments.”

# HOW DID FINANCE GET HERE?

([HTTP://SSRN.COM/ABSTRACT=905867](http://ssrn.com/abstract=905867))

- Till 1800 AD: Industrial revolution and joint stock firms concept led to
  - *Barter Exchange*
  - *Double Entry Accounting & Bookkeeping*
- 1800-1900: ↑ size of business unit, ↑ capex level, & ↑ separation of ownership from management meant introduction of
  - *Intermediaries, Stock and Commodity Exchanges*
  - *Financial Reporting Procedures, Management Accounting Systems*
  - *Debentures, Convertibles, & Preference Shares*

# HOW DID FINANCE GET HERE?

([HTTP://SSRN.COM/ABSTRACT=905867](http://ssrn.com/abstract=905867))

- ◎ 1900-1950: ↑ Competition and Entry of Retail Investors led to
  - **Regulators, Institutional Intermediaries**
  - *Financial Analysis, Budgeting & Standard Costing*
  - **Common Stock Exchanges**
- ◎ 1950-2000: ↑ Research, ↑ Competition in Finance, ↑ Technology/ Communication meant
  - *Credit Rating, Watch Dogs, Wealth Managers*
  - *Theories – Random Walk, Portfolio, Market Efficiency, MM's Capital Structure and Dividend*
  - *Models – CAPM, Option Pricing, Fama-French*
  - **Derivatives, Swaps, ESOPs, Securitization, LBO, EVA, ABC, SCM, MVA, Hedge Funds, ...**

# HOW DID FINANCE GET HERE?

([HTTP://SSRN.COM/ABSTRACT=905867](http://ssrn.com/abstract=905867))

- 2000-2019: ↑ Research (Commercial), ↑ Player size & type of competition in Finance, ↑ Technology/Communication ↑ external communication (quantity), ↑ IQ, ↓ internal communication, ↓ intelligence type, ↓ risk & uncertainty (fortitude experiences)
  - **Digital Currencies, Risk Management Professionals, Alternate Asset Classes, ...**
  - **PE, VC, Interest in Trading (Quantitative type); Increasing chance of systemic issues; IFRS, Narrower Formats, Compliance Norms, Behavioral Finance, Wider Variety of Quantified Risk Models, Niche Fields (AIM, MFI, SWF, Islamic Fin., etc.), Niche Products (ETFs, REITs, etc.)**

# HOW MUCH MONEY THERE IS IN THE WORLD?

- ◉ Answer is **complicated** ... & depends on parameters used to define “money”
- ◉ “The more abstract definition of money we use, the higher the number is,”
- ◉ For purists, who believe “money” refers only to physical “narrow money” (bank notes, etc), it is USD 37 trillion.
- ◉ If you’re looking at “broad money,” includes any money held in accessible accounts, it is USD 90 trillion.
- ◉ Those preferring even broader interpretation, including bitcoin + gold supply + funds invested in various financial products like derivatives, it is USD 1.1 quadrillion (Derivatives 60%, Borrowed 22%, Stocks 7%, Real estate 3%, Cryptos < 1%).
- ◉ Reference: <http://money.visualcapitalist.com/worlds-money-markets-one-visualization-2017/>

# HOW WOULD A MODERN CFO LOOK?

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"Gentlemen, meet our new Chief Financial Officer."

# “FINANCE” – IS IT DIFFICULT?

- ◎ Look from a business perspective
  - Look from the perspective of long-term investing (or owning) ... say, (relatively) successful communities ... Bohra, Gujarati, Jews, Malabari Muslim, Marwari, Parsi, Punjabi Khatri, Syrian Catholic,
    - ➔ Understand ‘practical economics’ and ‘pursuing prospects’
      - ➔ Caution: These communities also have some limitations
  - **Motivated, Opportunist, Calculative & largely Practical**
- ◎ Appreciate jargons
  - Read business newspapers + (if needed) web-search
  - Read books and journals + Access databases
  - Exchange views ➔ Simultaneous updating
- ◎ Don't switch-off
  - Unlearn & Avoid Prejudiced Mindset
    - Concentrate



# TYPICAL MENTAL BLOCKS

- ◉ “I Can’t” mindset
  - Easily give it up
- ◉ Brahminical mindset
  - We should never do transactions on credit
- ◉ Islamic mindset
  - We should never charge interest to loans
- ◉ Bengali mindset
  - Earning money is bad
- ◉ Engineers mindset
  - Look for standard algorithms
- ◉ Commerce / Accountant mindset
  - Cannot come out of rules & regulations

# TYPICAL MENTAL BLOCKS

## ◎ Sarkari Babu mindset

- Play safe
- Don't stretch (or, move to zone of discomfort)

## ◎ Single Child mindset

- Just order (to your guardians) and it will be done

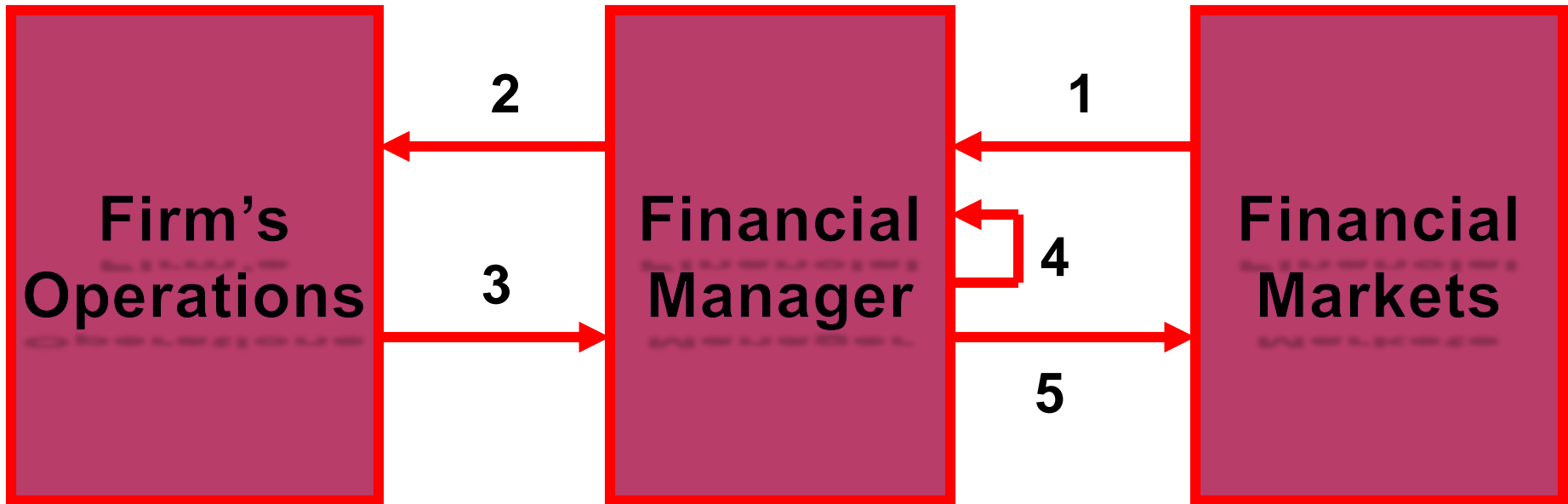
## ◎ Google-Dada/Didi mindset


- Everything in this world can be web-searched (and the first 1-2 links are the 'Bhagwad Gita' for them)
- Plus severe "Copy Paste" Addiction

## ◎ Experienced mindset

- Why should we read? We know everything?

# ROLE OF THE FINANCIAL MANAGER



- 
1. Cash raised from investors
  2. Cash invested in firm
  3. Cash generated from operations
  4. Cash reinvested
  5. Cash returned to investors

# MARKET DIFFERENCES ...

- Primary Vs Secondary
- Money-market Vs Capital-market (G-Sec. market ...  
Equity market and Bond market)
- U.S. Vs Japanese/German markets
- Indian markets: Pre-liberalization Vs Post-liberalization

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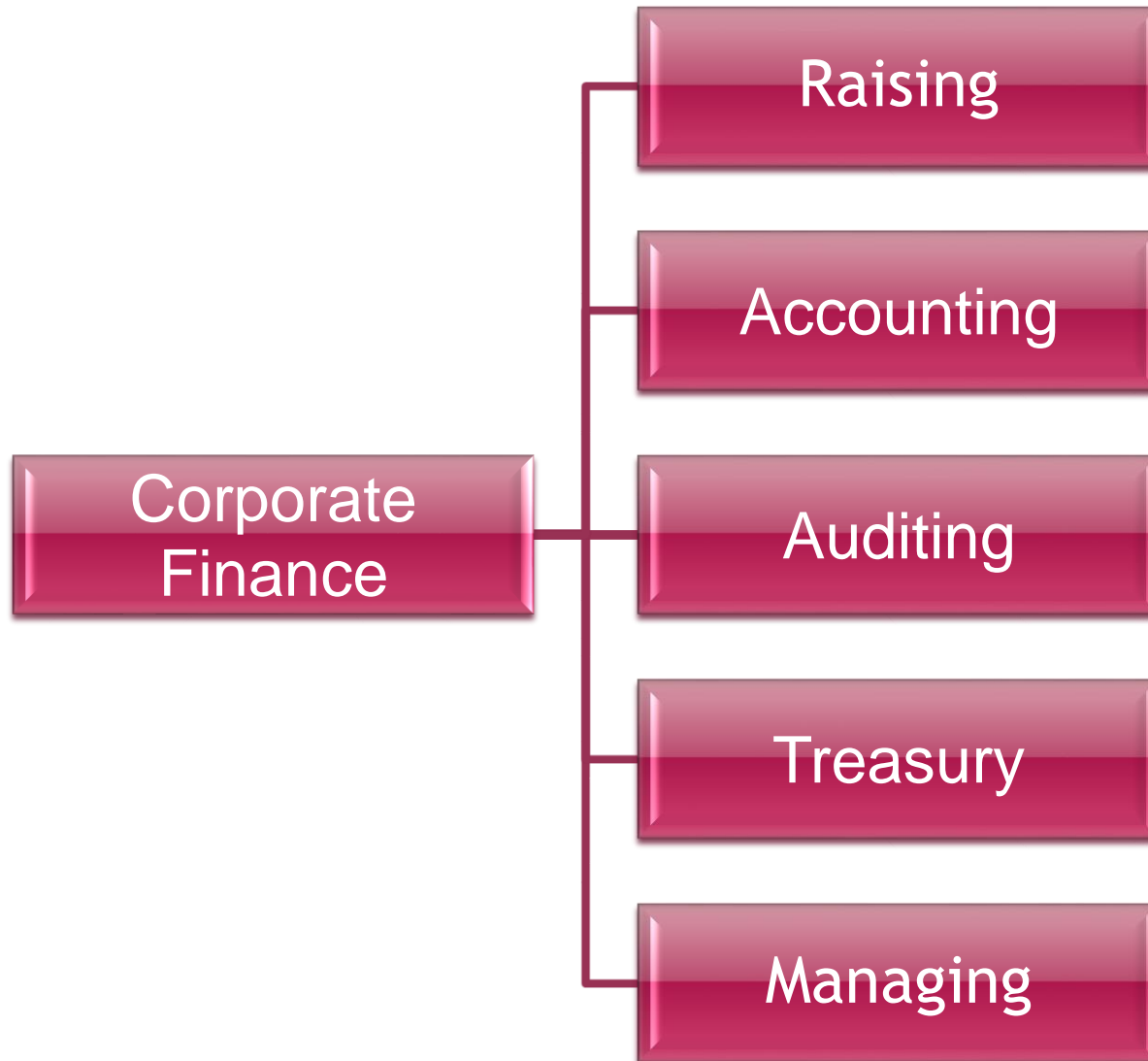
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**"It's safe to come out - the auditors have gone."**

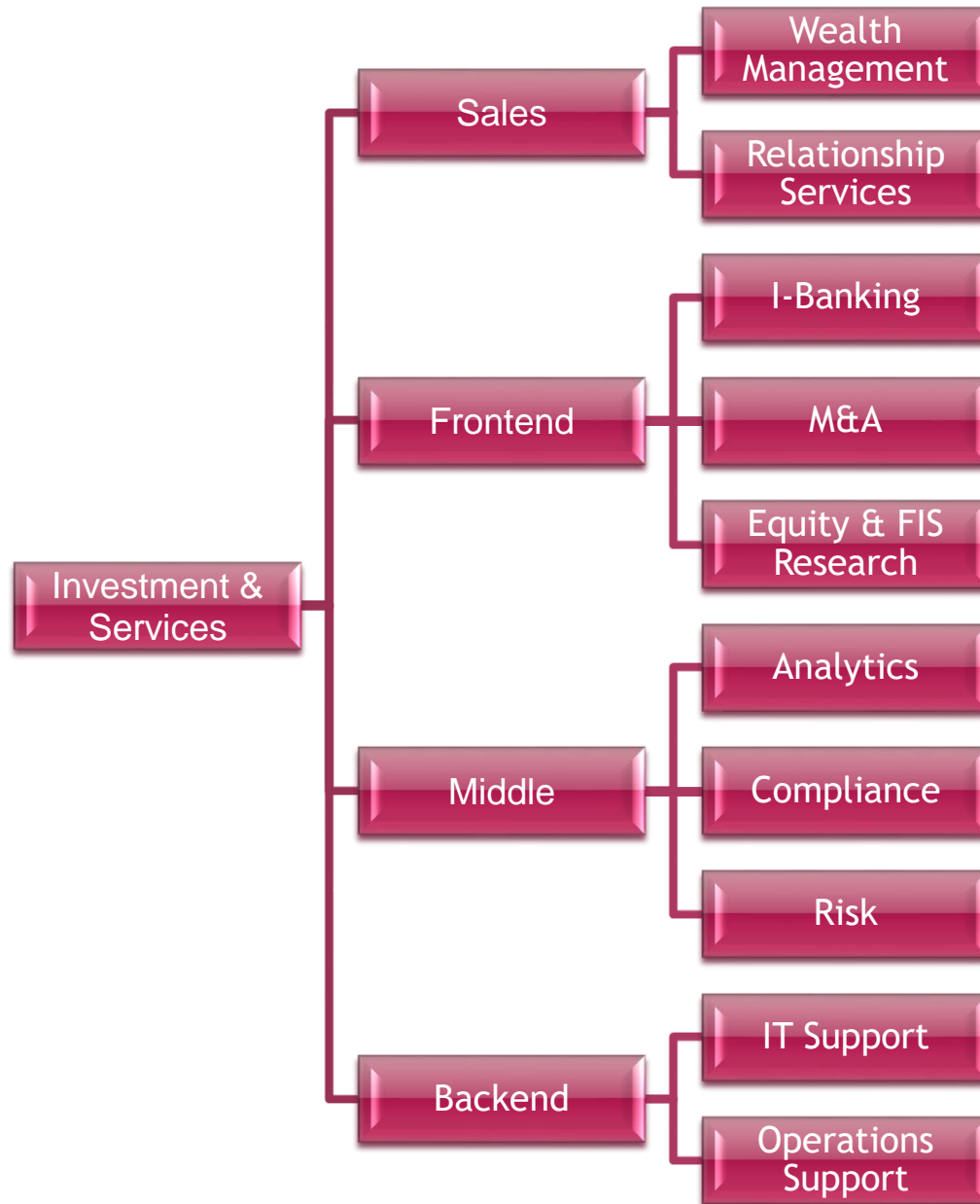
# “FINANCE” STREAMS ...



# “CORPORATE FINANCE” STREAMS

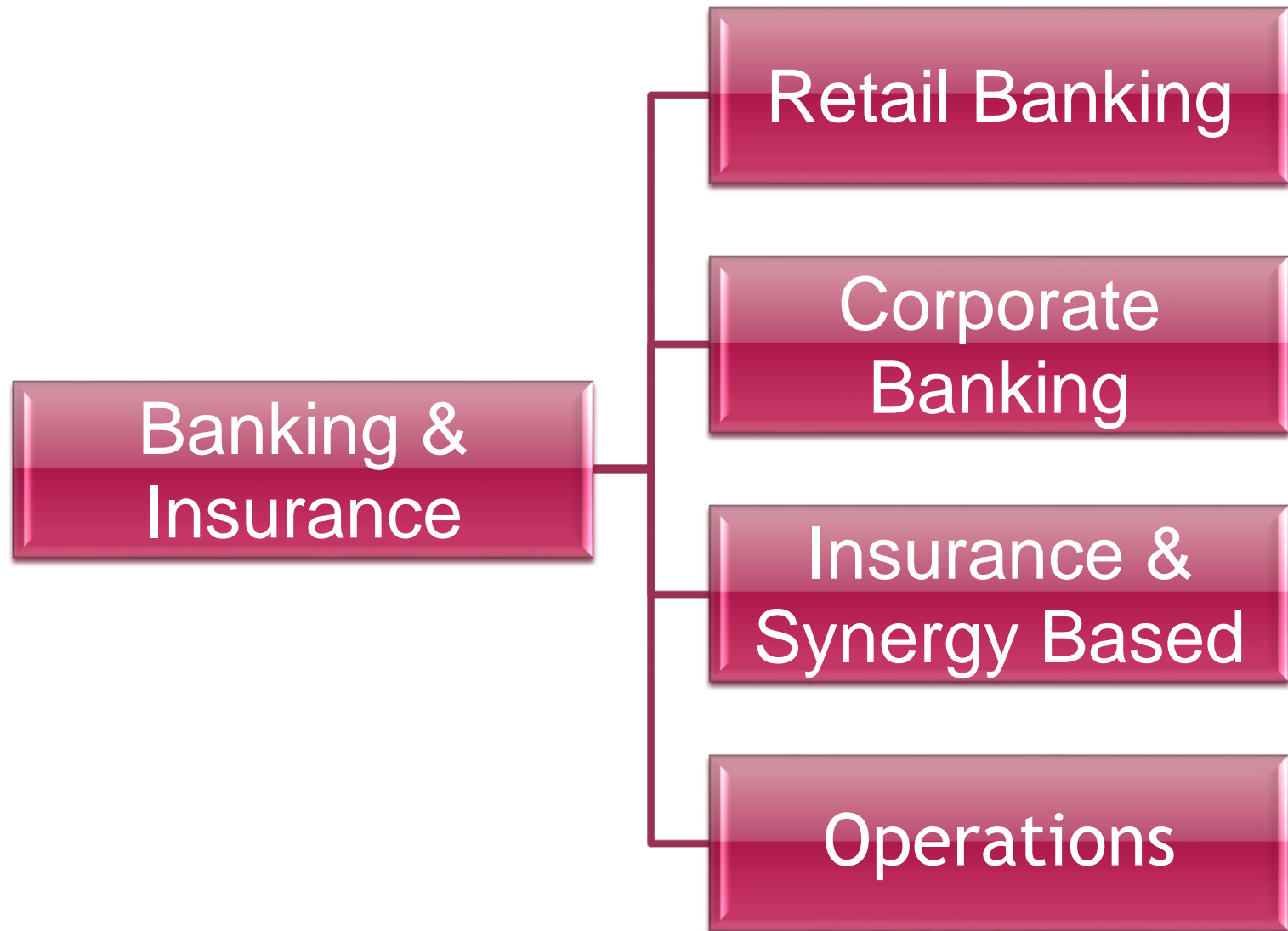


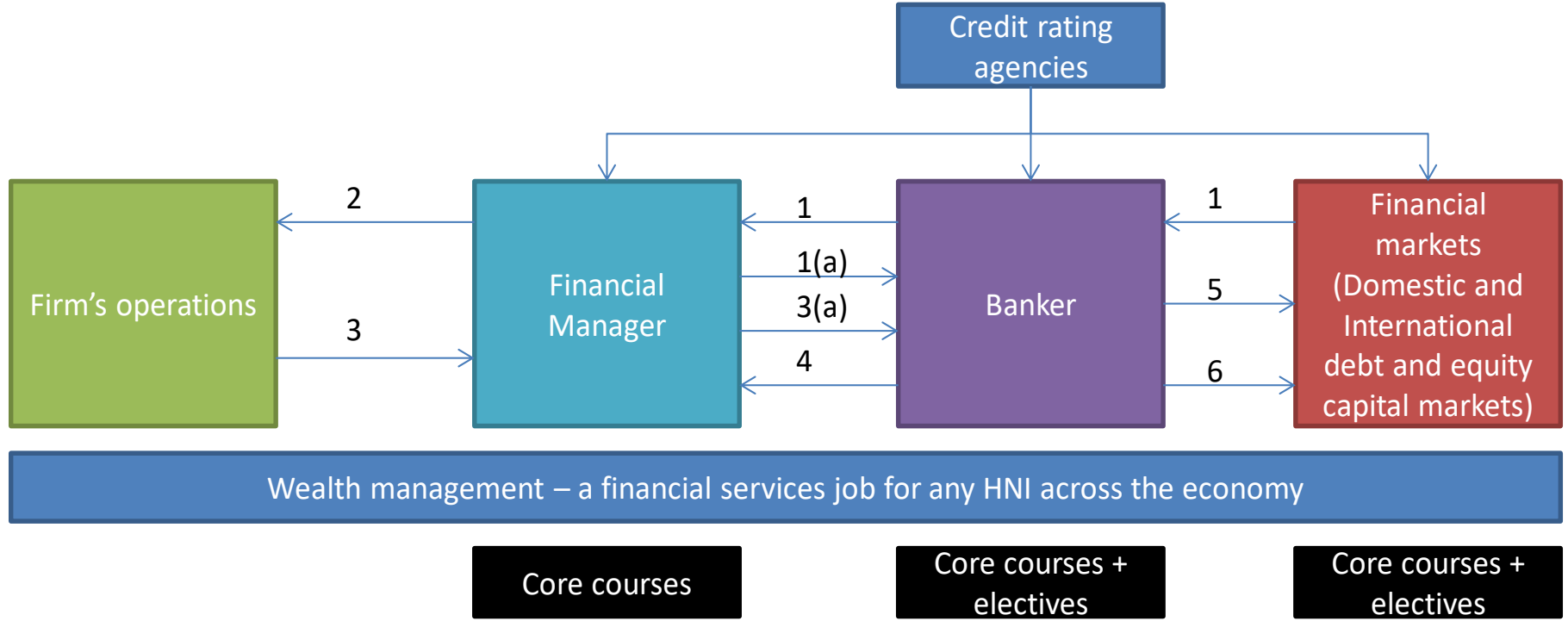
# “INVESTMENT & SERVICES” STREAMS



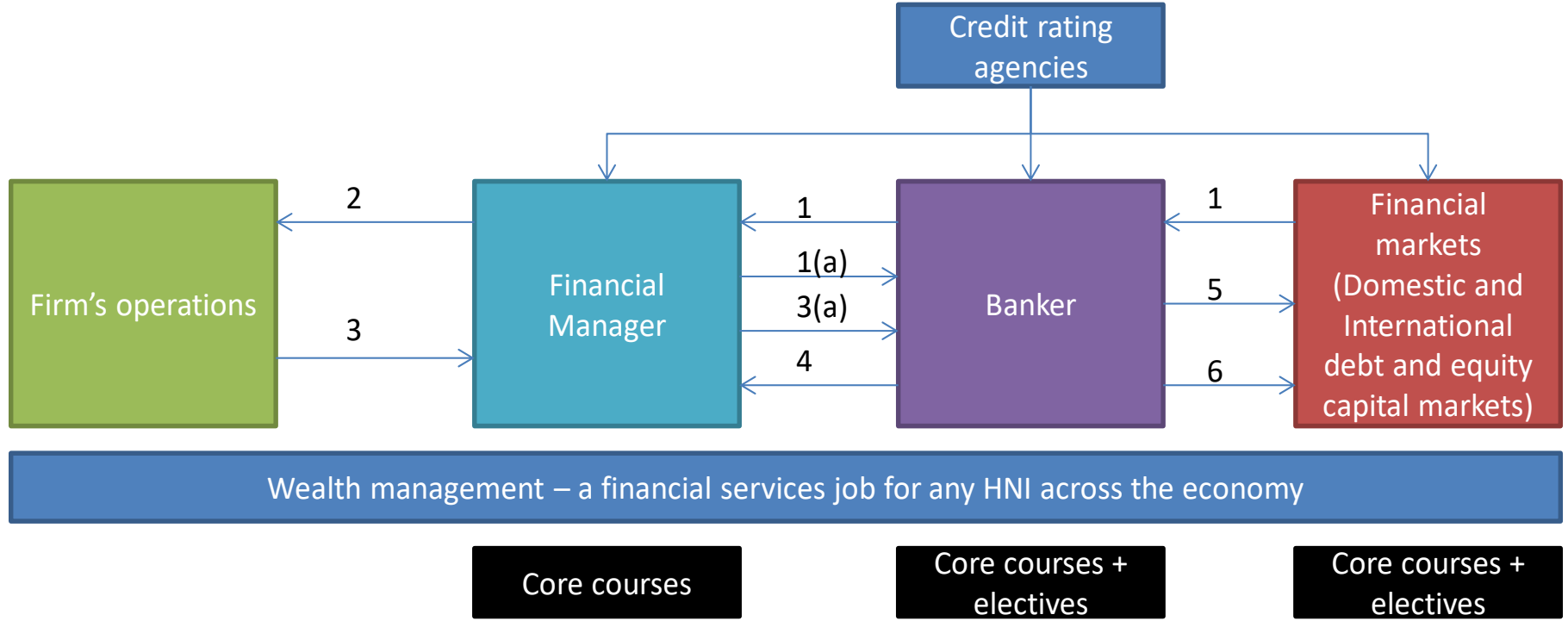


# “BANKING & INSURANCE” STREAMS



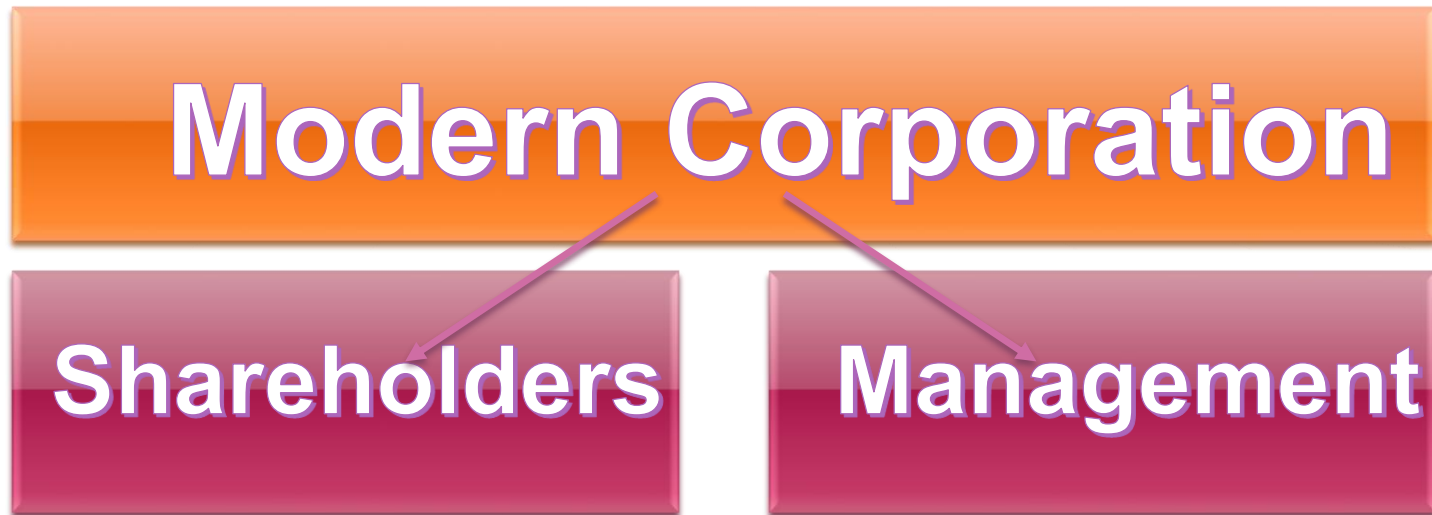


1. Bankers and financial managers raise capital for investors (from capital markets i.e. debt/ equity in INR/ US\$ / foreign currency)
    1. Bankers and financial managers also engage and in hedging needs of the Firm i.e. protecting assets from devaluating due to currencies and liabilities from increasing due to increase in interest rates/ currency
    2. Bankers and financial managers also provide working capital
  2. Financial managers deploy this capital in their business operations – their decision involves capital allocation
  3. (a) Cash generated by the business is to be again protected by Finance Manager (cash management, regular banking)
  4. Banker advises Financial Manager on deployment of cash/ M&A
  5. If no opportunities, Banker advises deploying excess cash in the market
  6. Banks provide research and analytics services to the market
- Options also include services in wealth management and rating agencies which cater to needs to finance managers, bankers and the financial markets



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# AGENCY CONCEPT



There exists a SEPARATION between owners and managers.

# OWNERSHIP VS MANAGEMENT

## Differences in Information

- ◉ Stock prices and returns
- ◉ Issues of shares and other securities
- ◉ Dividends
- ◉ Financing

## Different Objectives

- ◉ Management Vs stockholders
- ◉ Top management Vs operating management
- ◉ Stockholders Vs banks and lenders

# REAL VERSUS FINANCIAL ASSETS

- Nature of Investment
  - Reduce current consumption for greater future consumption
- Real Assets
  - Used to produce goods and services: Property, plants and equipment, human capital, etc.
- Financial Assets
  - Claims on real assets or claims on real-asset income

# Thank You



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