



Understanding financial markets

Often than not, individuals and institutions are faced with the challenge of raising funds to finance their consumption and expansion needs. Individuals often turn to banks to access funds for their needs while institutions often turn to the financial market to access huge volumes of funds which the banks may not be able to make available to them.

The term financial market is one of the most widely used term in finance and investment.

A financial market is basically a market in which people trade financial securities, commodities, and other financial assets. It is a marketplace where buyers and sellers participate in the trade of financial assets such as

equities, treasury bills, bonds, currencies and derivatives. It can also be defined as a medium which brings surplus spending units and deficit spending units together. Surplus spending units refers to individuals and institutions who have more money than they can spend while deficit spending units refers to individuals and institutions who have less money than they want to spend.

Financial markets can be classified into two, namely Capital Market and Money Market.

Capital Markets are a broad category of markets that enables the buying and selling of long term financial instruments or securities. Basically, capital markets can be defined as markets in which money is provided to deficit

spending units for periods longer than a year; therefore a capital market instrument is a financial asset or security which have a maturity period of above one year. Capital markets instruments usually offer better returns but associated with a higher level of risk.

The capital market can further be divided into Primary Markets and Secondary Markets.

Primary Market is a market for new issues or new financial claims thus it is also called new issue market. The primary market deals with securities which are issued to the general public for the first time. In other words, the primary market is the market where startup companies or private companies go public or existing public company who decide to list on the stock

exchange issues shares to the general public for the first time through an IPO (initial public offering). It is important to note that the issuing company receives proceeds from the sale or issue of the shares, which is then used to fund operations or expand the business and that, securities are purchased directly from an issuing company.

An example of a primary market activity is the recent listing of Access Bank Ghana Ltd on the Ghana Stock Exchange where shares of the bank were issued to the general public for the first time.

Secondary markets allow investors to buy and sell existing securities. The Secondary market can be thought of as the market where the second hand securities are sold just like the "Fos line" in Kantamanto or Madina Market where used clothes are sold and bought.

In other words, securities which have already passed through the new issue market (IPO) are traded in this market. The key thing about the secondary market is that transactions in the secondary market are between investors i.e. shares are sold and bought between investors and the proceeds directly goes to the investors unlike in the primary market where the proceeds goes to the issuing company. An example of a secondary market transaction is the recent "Rights Issue" done by SG-SSB Ghana Limited. The secondary market is where investors purchase securities or assets from other investors, rather than from issuing companies directly.

The money market on the other hand is a section of the financial market where financial instruments with short term maturities and very high liquidity are traded. In other words the money market is a market where financial assets with maturities of less than one year are traded. Example of Money market securities includes negotiable certificates of deposit (CDs), banker's acceptances, treasury bills, commercial paper and repurchase agreements (repos). Money market investments are also called near cash investments or cash equivalents due to their short maturities.

The money market is usually seen as a safe place to put money due to the highly liquid nature of the securities and short term maturities. Money market securities offer significantly lower returns than most other securities due to their conservative nature and are a safe place to invest funds that will be needed soon. For instance, pensioners living on fixed income use money market instruments to keep their

grow their businesses and also provide investment opportunities to individuals. This is done mainly through the stock and bond markets.

Financial Markets also provide an open and transparent way to set prices of financial assets traded by an assumption that all available knowledge about financial assets traded are taken into consideration. This greatly decreases the cost of getting information, because it's already incorporated into the pricing.

Again, financial markets provide liquidity. In other words, sellers or investors can easily discharge assets whenever the need to raise funds arises.

Last but not the least, financial markets reduce the cost of doing business since companies don't have to go far to find funds to finance its business operations.

Conclusion

Money markets allow firms to borrow funds on a short term basis and also for conservative investors to invest their surplus funds, while capital markets allow companies to gain access to long-term funds to support their financing and investment operations.

A good example of a financial market is a stock exchange. A company can raise money by selling shares to investors and its existing shares can be bought or sold.

Without financial markets, borrowers would have difficulty finding lenders themselves. Intermediaries such as banks and Investment Banks can help in this process. Banks take deposits from those who have money to save. They can then lend money from this pool of deposited money to those who seek to borrow.

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money safe and accessible.

Having gone through the types of financial markets, let's identify a few roles that a financial market may play in an economy.

Financial markets create an open and regulated system for companies to obtain large amounts of financial capital to

IN THE MATTER OF UNIBANK (GHANA) LIMITED (IN RECEIVERSHIP), THE BEIGE BANK LIMITED (IN RECEIVERSHIP), THE ROYAL BANK LIMITED (IN RECEIVERSHIP), SOVEREIGN BANK GHANA LIMITED (IN RECEIVERSHIP) AND THE CONSTRUCTION BANK (GH) LIMITED (IN RECEIVERSHIP)

Pursuant to section 123 of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930), the Bank of Ghana by a notice of appointment dated 1 August 2018 appointed Nii Amanor Dodoo as the Receiver of the following five banks:

- The Beige Bank
- uniBank (Ghana) Limited
- Sovereign Bank Limited
- The Royal Bank Limited and
- The Construction Bank (Ghana) Limited

Charged with the responsibility of realising the Bank's assets and settling its liabilities, the Receiver hereby gives NOTICE that all persons or companies that are indebted to the aforementioned Banks are required to make payment of their debts or meet the Receiver to make satisfactory arrangements towards settling these obligations by 14 June 2019.

Payments should be made into the Receiver's bank accounts opened in the names of the respective banks (In Receivership) with Consolidated Bank Ghana Limited (CBG) or through arrangements made with the Receiver at **Marlin House, 13 Yiyiwa Drive, Abelenkpe, Accra.**

Failure to make payment or reach satisfactory arrangements with the Receiver towards settling these obligations within the stipulated period will result in publication of names and amounts owed in the national dailies and/or the initiation of court action for recovery of all obligations without further recourse to any debtor.

You may contact the Receiver at receiver@kpmg.com.gh or on **+233302770454** to discuss all obligations due to any of the respective banks (in receivership).

Dated in Accra this day of 14 May 2019

Nii Amanor Dodoo
Receiver

ABOUT OMEGA CAPITAL

Omega Capital Limited is an Investment management, private equity and investment advisory firm. The Company is authorized and regulated by the Securities and Exchange Commission of Ghana.

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