



A MOMENT OF CLARITY

What is the Stock Market? By Round Table Wealth Management

Many people are familiar with the term “stock market,” but few actually understand what a stock market is, as well as its role in the economy.

Defining the Stock Market

A stock market generally refers to an exchange where investors buy and sell shares of equity securities that represent ownership in a vast array of publicly-traded companies. The most commonly cited U.S. stock exchange is the New York Stock Exchange (NYSE). Renowned U.S. companies like General Motors, Google, and AT&T all trade on the NYSE. Stock exchanges exist in many other countries across the globe, including the Tokyo Stock Exchange, Shanghai Stock Exchange and the London Stock Exchange. Typically, most of the companies that trade on an exchange in a given country are headquartered in that country.

Measuring the Stock Market

It is important to note that when people reference how “the stock market” is doing, they are not usually referring to the actual stock exchange, but rather a stock index. An index is comprised of a large basket of stocks which trade on a stock exchange and is a commonly cited measure of stock market performance. It is designed to be a representative sample of a broader market. Some of the more common U.S. stock market indices are the S&P 500 and the Dow Jones Industrial Average. Internationally, the FTSE 100 in London or the Nikkei 225 Index in Japan are widely-followed indices.

Role of the Stock Market

The stock market is no different from any other market in the sense that it brings buyers and sellers together. However, stock markets play a particularly critical role in the American and global economies. Their most critical purpose is providing a pathway for companies to raise capital. They allow private companies to unlock the value they have built over the years and existing public companies to access new funding. Stock markets also make the benefits of corporate ownership open to the public. Instead of being concentrated in the hands of a few, profits from large public companies can be enjoyed by a much broader portion of the population.



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