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FN221 Assignment 5

1) Corporation issue stock in equity market in order to get access to fund from other party like private and public sector. Issuing stock is like offering shares of ownership to other party in exchange with fund. This type of funding also has some benefit, because there is no cost of debt as interest. Some people who buy these stocks are investors as well. Theses investor sees the opportunity or potential growth in these companies, that's why they invest in these companies by buying ownership shares of the company. If the company grows, the investors also ear some return in terms of capital gain and dividends. Some investor may not want to create a business by themselves, due to all the risk involve, they prefer to invest in company who are more specialize in doing business. So it's a win-win situation for both parties.
2) Bond price and interest rate have negative relationship. This happens because the law of demand and supply in bond market. If the bond holding by investor gives return of 5%, but the market interest rate is 7%. People would demand more of the bond giving return of 7%, this mean the price of 7% bond would increase. On the other hand, the bond with 5% would have lower demand which would drive the price down. This is because people want highest rate of return on their bond, so the price and interest rate have negative relationship.
3) It is important to understand each fund objective. Because some funds may prefer high risk in order to yield higher rate of return, but some prefer lower risk. The investors have to understand their objective first, so they can match their objective with the fund. If people invest in funds without understanding the risk or the objective, they might get something they did not want in the first place.