

1.2 Stock Exchanges & Publicly Traded Companies

How many companies do you own?

Unless you have your own business, you will most likely answer this question “none”. The right answer, though, could be 5, 10, 100, or more than 1000. Whether you realize it or not, if you own stock in a company (approximately 45% of Americans do) either directly or indirectly, such as a retirement plan, you have an ownership stake in a company. Of course, you may own the company along with hundreds of thousands of other people and your ownership stake may be such that you don’t have a noticeable impact on the operations of the company, but nevertheless, YOU are the owner of the company. Therefore, all the employees, including the CEO, work for you (and for all the other shareholders).

In the U.S., there are more than 10,000 companies whose shares trade on various exchanges. But how did they get there?

An initial public offering (IPO) is the primary method of getting listed on a stock exchange. An IPO is essentially a company selling shares to the public. Banks and other financial institutions provide various services during this process. This is a win-win for everyone: the company, investors (individual or institutional), and the markets in general. For the company, it is one way of raising funds. The company takes your money, and in return makes you an owner so you can not only share profits but you may also have a say on company operations. For the investment community, it is an addition to the universe of financial instruments you can invest in. As far as the markets are concerned, the stock price provides valuable information to the markets and improves capital allocation decisions. Specifically, the price provides you with the market estimate of how much a company is worth.

Let’s switch gears and talk some sports. Do you own some sports teams?

You now know that you can own a company if it is traded on the public exchange. Are there any sports teams on publicly traded exchanges? Madison Square Garden, Inc. (MSG), a publicly traded company, owns and operates some franchises, including the New York Knicks of the NBA and the New York Rangers of the NHL. In the NFL, the Green Bay Packers are publicly owned (though not traded), but in general, the NFL does not allow its franchises to go public. In Europe, the famous English soccer team, Manchester United, was listed on the London Stock Exchange until 2005, when Malcolm Glazer took it private.

Generally though, sports teams are not listed on the stock exchanges, especially in the U.S. How do we know what the teams are worth? Do we care? Stay tuned - we’ll pick these questions up in the following chapters.