The Analysis of the Financial Market in China

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Abstract: *A stock is a certificate of ownership issued by a stock company, and it is also a kind of securities issued by a stock company to each shareholder as a certificate of shareholding in order to raise funds. Shareholders rely on this certificate to obtain dividends and bonuses. Moreover, each share of the stock represents the ownership of a unit of the company by the shareholders. Behind every stock is a listed company. At the same time, every listed company will issue shares. Each share of the same category represents the same ownership of the company. The share of ownership of the company owned by each shareholder depends on the proportion of the number of shares held by the shareholder in the total share capital of the company.*

1. Introduction

Stock is the result of the composition of the capital of a joint-stock company and can be transferred, bought or sold or used as collateral. Stocks are also the main long-term credit tool of the capital market. The predecessor of the stock market originated in 1602 when the Dutch bought and sold shares of the Dutch East India Company on the Amstel Bridge. The formal stock market first appeared in the United States. The stock market is a place where both speculators and investors are active, and it is also a test table for a country or region's economic and financial activities. Secondly, stock investment is a long-term investment with no deadline. Once the stock is bought, as long as the stock issuing company exists, no stock holder can withdraw the shares, that is, cannot request the stock issuing company to withdraw the principal. Similarly, the shareholder status and shareholder rights of the stock holder cannot be changed, but he can sell the shares through the stock exchange market and transfer the shares to other investors to recover his original investment.

Stocks have many functions. For example, first of all, after stocks are listed, listed companies become the investment targets of the investing public, so it is easy to absorb the savings funds of the investing public and expand the source of financing. Secondly, after the stock is listed, the equity of the listed company is dispersed in the hands of thousands of investors of different sizes. This kind of equity diversification can effectively avoid the danger of the company being dominated by minority shareholders alone, and give the company greater management Degrees of freedom. Finally, the stock exchange's announcement of the stock quotations of listed companies and the periodic accounting schedules has an advertising effect, effectively expanding the visibility of listed companies and improving the reputation of listed companies.

So how is the face value of the stock determined? The face value of a stock is the face value indicated on the face of the stock issued by the stock company. It is in yuan/share, and its function is to indicate the amount of capital contained in each stock. The face value of the stocks circulated in my country's Shanghai and Shenzhen stock exchanges is one yuan, that is, one yuan per share. One of the functions of the face value of stocks is to indicate the proportion of stock subscribers in the investment of the stock company as the basis for determining shareholder rights. If the total share capital of a listed company is 1,000,000 yuan, holding one share means that the company owns 1/1,000,000 shares. The second function is to use the face value of the stock as a basis for the issuance price when the stock is issued for the first time. Generally speaking, the issue price of a stock will be higher than its face value. When the stock enters the circulating market, the face value of the stock has nothing to do with the price of the stock. Shareholders love to speculate the stock price as high as possible.

2. Methods

The net value of the stock is also called the book value, also called the net asset per share, which is the net asset value per share calculated by the method of accounting statistics. The calculation method is to divide the company's net assets (including registered capital, various provident funds, accumulated surplus, etc., excluding debt) by the total share capital, and the net value per share is obtained. The higher the book value of the stock company, the more assets the shareholders actually own. Since book value is the result of financial statistics and calculation, the data is more accurate and highly reliable, so it is one of the important basis for stock investors to evaluate and analyze the strength of listed companies. Investors should pay attention to this data of listed companies.

The issue price of the stock will be different from the market price of the stock. When stocks are issued on the market, the listed company, from the perspective of the company's own interests and ensuring the success of the stock listing, does not issue the listed stocks at face value, but sets a more reasonable price to issue. This price is called the stock issue price. The market price of a stock refers to the transaction price reached by both parties in the transaction process. The stock price usually refers to the market price. The market price of stocks directly reflects the conditions of the stock market and is the basis for stockholders to buy stocks. Due to the influence of many factors, the market price of stocks is in constant change. The stock price is the concentrated expression of the stock market value, so this price is also called the stock market.

The following article will use the Shanghai Stock Exchange index as an example to explain how the stock market works. First of all, the Shanghai Stock Exchange Composite Stock Price Index is a statistical indicator that reflects the overall trend of the Shanghai stock market that is widely used in the world. The Shanghai Stock Exchange index was compiled by the Shanghai Stock Exchange and was publicly released on July 15, 1991. The SSE stock withdrawals are based on "points" and the base date is set on December 19, 1990. The base daily withdrawal is set at 100 points. With the continuous development of the Shanghai stock market, on February 21, 1992, the Shanghai Stock Exchange A Share Index and the Shanghai Stock Exchange B Share Index were added to reflect the respective trends of different stocks (A shares and B shares). On June 1, 1993, the Shanghai Stock Exchange sub-indices were added, namely the industrial index, commercial index, real estate industry index, public utility index, and comprehensive industry index to reflect the respective trends of stocks in different industries. So far, the Shanghai Stock Exchange Index has developed into a series of stock price indices including comprehensive stock index, A-share index, B-share index, and sub-index.

The Shanghai Stock Exchange Index is a weighted composite stock price index calculated by the Pax formula with the number of shares issued during the reporting period as the weight.

Index during the reporting period = (total market value of sample stocks during the reporting period/total market value of sample stocks on the base day) $\times 100$

Total market value = Σ (market price × number of issued shares)

Among them, the total market value of the sample stocks on the base day is also called the divisor.

3. Conclusions

When the total market value changes due to non-trading factors, the "divisor correction method" is used to modify the original fixed divisor to maintain the continuity of the index. The correction formula is as follows:

The total market value of the sampled stocks before the correction/original divisor=the total market value of the sampled after the correction/the corrected divisor thus obtains the continuity after the correction, and calculates the future index accordingly.

When stocks pay dividends, the index will not be revised, allowing it to fall naturally.

According to the actual situation of the Shanghai stock market, if one of the following situations occurs, it must be corrected:

(1) Listing of new stocks; (2) Delisting of stocks; (3) Changes in the number of shares (bonus shares, allotments, capital reduction, etc.); (4) Stock withdrawal (temporarily not included in the index), restoration (re-included in the index) (5) Exchange rate changes

New stock listing: New stocks are included in the index on the second day of listing, that is, they

will not be included in the index on the same day, and the index will be corrected after the close of the day. The correction method is:

The total market value of the day / the original divisor = the total market value of the day + the number of new shares issued $\times$ the closing price of the day / the revised divisor

Ex-right: Revise the index before the opening of the stock's ex-right trading day:

Total market value of the previous day/original divisor=[total market value of the previous day+number of issued shares of ex-rights stocks$\times$(ex-rights quotation-closing price of the previous day)]/divisor after revision

Withdrawal: remove the stock from the index stocks on the ex-entitlement base date for stocks with transfers;

Restoration of rights: It will be included in the calculation scope of the index from the eleventh trading day after the allotment of the withdrawn stocks is listed for circulation.

The Shanghai Composite Index is currently calculated on a real-time basis, that is, every time there is a new transaction, the index is recalculated. The calculated price (X) of the sampled stock is determined according to the following principles: (1) If there is no transaction on the same day, X=the previous day's closing Price (2) If there is a transaction on the same day, then X = the latest transaction price

The Shanghai Composite Index is widely released domestically and internationally every day in various communication methods.

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