
MSA 643
Sport Finance
Belhaven University

Unit 4

Financial Systems and How They
Operate

Introduction

- This unit deals with the key elements in various financial systems and institutions and the way in which they interact to help sport businesses.
 - The primary focus of this unit is on what constitutes value and how value can be exchanged to help facilitate sport business transactions.
 - It will also highlight these terms: Financial Market, Interest Rates, Mortgage, Obligations, and Accounts Payable.
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Topics

- Financial Markets
 - Assets
 - Marketable Securities
 - Financial Institutions
 - Bonds
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Objectives

- Describe a financial market.
 - Compare the various types of financial markets and the way in which they affect the sport industry.
 - Understand the differences among marketable securities such as stocks and bonds.
 - Explain how sport businesses can acquire needed capital through institutions such as banks and savings and loans.
 - Comprehend the government's role in influencing financial systems and sport industries.
 - Understand the forces that propel the stock market and the various publicly traded sport-related stocks.
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Biblical Foundation

- *Scriptures: 1 Peter 2: 13-15 & Zechariah 3:7-10*
 - The context of this passages will allude to the commission to authority to the Lord and utilize great decision making to develop great judgment.
 - *Additionally*, these selected scriptures relate to the content in understanding how to do things in the Lord's timing and everything else will be directed in the right path.
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Types of Financial Markets

- Tangible or physical markets
 - Financial asset markets
 - Spot markets
 - Money markets
 - Mortgage markets
 - Primary markets
 - Futures markets
 - Capital markets
 - International markets
 - Secondary markets
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Funding Through Financial Markets

- Businesses are not required to use only one market exclusively.
 - Most businesses utilize several different markets when raising capital.
 - No matter what market is used, the key to funding business growth and facilitating movement in all financial markets is . . . **money**.
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Money

What is money?

- Money is the means by which commerce can occur.

The Value of Money

- Money has no value in and of itself; it is just metal or paper.
 - There is agreement between two parties that it has value (i.e., value is arbitrarily placed).
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Instruments of Commerce

Over time, the growth of commerce necessitated the creation of instruments that functioned similarly to money but were easier to use for conducting business.

Instruments of Commerce:

- Money
 - Credit
 - Checks
 - Marketable securities (representing documentation of ownership or indebtedness, such as stocks and bonds)
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Marketable Securities

- Marketable securities are instruments so widely accepted and purchased by others that they are very similar to cash (Brigham & Ehrhardt, 2011).
 - T-bills
 - T-notes
 - Government agency securities
 - Certificates of deposit
 - Commercial paper
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Assets

Liquid assets: Any asset that is easy to convert to cash.

Hard assets: Assets that a company might not be able to convert to cash quickly but that still have significant value (e.g., factory building, real estate, machinery).

The Most Liquid of Assets

Marketable securities are the most liquid.

- Shorter maturity periods (T-bills)
 - Ability to sell on a daily basis (stocks)
 - Relatively risk free (certain bonds and government securities)
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Securities From Risk Free to High Risk

Security	Typical maturity	Riskiness
Liquid investments for near-cash reserves		
U.S. Treasury bills—sold by the U.S. Treasury	91 days to 1 year	Default free
Banker's acceptance—promise to pay backed by a bank	Up to 180 days	Low risk if backed by a strong bank
Commercial paper—issued by large firms	Up to 270 days	Low default risk
Negotiable certificates of deposits (CDs)	Up to 1 year	Low default risk
Money market mutual funds—investment in T-bills, CDs, commercial paper, and so on	Various maturity dates	Low degree of risk
Euro market time deposits	Up to 1 year	Based on issuing bank
Consumer credit loans—banks, credit unions, finance companies	Variable	Based on issuing bank
Floating rate and market auction preferred stocks	Variable	Based on issuer
Liquid investments not suitable for near-cash reserves		
U.S. Treasury notes—price can change based on interest rate changes	3 to 10 years	Default free
U.S. Treasury bonds	Up to 10 years	Default free
Corporate bonds (rated AAA)	Up to 40 years	Based on issuer
State and local government bonds (rated AAA)	Up to 30 years	Based on issuer
Preferred stocks (rated AAA)	30 years to perpetual	Based on company
Common stocks in corporations	Unlimited	Variable

Stocks: Bear vs. Bull Market

Stock

- A stock certificate is a document demonstrating ownership interest in a company.

Bear Market

- A bear market is a stock market in which investors are scared, and prices drop approximately 20%.

Bull Market

- A bull market occurs when investors are optimistic, and the stock market increases more than 20%.
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Bonds

Debtor: Entity issuing the bond.

Creditor: Entity purchasing the bond.

- The greater the company's financial strength, the easier it is for the company to issue bonds.
 - Bonds are infrequently seen in the sport industry, but examples do exist.
 - For example, the New York Yankees and the New Jersey Nets merged and undertook a bond offering through Yankee-Nets LLC that raised \$250 million.
 - Proceeds were used to help purchase the New Jersey Devils.
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Stock Exchanges

- Exchanges are owned and operated by their members.
 - There are three major U.S. stock exchanges:
 - New York Stock Exchange (NYSE)
 - National Association of Securities Dealers Automated Quotations (NASDAQ)
 - American Stock Exchange (AMEX)
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Major International Exchanges

Market or exchange	Year founded	Average daily number of shares traded	Average daily trading volume	Market capitalization	Largest stocks
NYSE	1972	1.46 billion	\$36 billion	\$14 trillion	Exxon-Mobil, Walmart, Chevron
NASDAQ	1971	1.44 billion	\$39.5 billion	\$4.44 trillion	Microsoft, Apple, Google
London	1801	580,000	\$9.5 billion	\$3.2 trillion	BHP Billiton, Royal Dutch Shell, HSBC
Tokyo	1878	1.5 billion	\$6.2 billion	\$3.325 trillion	Softbank, Mitsubishi, Canon
Australia	1837	1.2 billion	\$3.48 billion	\$1.2 trillion	BHP Billiton, Commonwealth Bank of Australia
Toronto	1878	250 million	\$5.2 billion	\$2 trillion	Potash Corp. of Saskatchewan, Barrick Gold, Canadian Natural Resources

Stock Exchange: Buying and Selling

- **The ask (or offer) price:** Price that a seller would like to receive for the item he wishes to sell.
 - **The bid price:** Price that a potential buyer is willing to spend to acquire the item.
 - **Somewhere between these, a compromise is reached** (similar to eBay).
 - NYSE and AMEX: auction style with a floor
 - NASDAQ: buying and selling negotiated through computers
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Securities and Exchange Commission (SEC)

- SEC's current primary focus is proper disclosure.
 - Often centers on annual reports.
 - Insider trading also key concern.
 - Initial primary emphasis was ensuring accuracy in the underwriting of stock offerings and proper disclosure (Spiro, 1996).
 - Goal was to ensure equal access among investors to information from companies.
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Questions for Class Discussion

- DQ1: Review Walt Disney Co. (NYSE: DIS) stock, which owns ESPN. What situation can effect (+/-) the value of the stock in a sports related industry? Provide an example of any sports company and how their stock was affected by the situation in question.
 - DQ2: If you were going to take a minor league baseball team public, what stock exchange would you try to get it on and why?
 - *Requirements: 250 words minimum initial post, 100 words minimum reply*
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References

- **Required Textbook:**

Fried, G., Shapiro, S., & DeSchraver, T. (2013). *Sport Finance*, (3rd ed.). Champaign, IL: Human Kinetics. ISBN 13: 978-1450421041

- **Article Listed for Unit 4:**

Knight Commission on Intercollegiate Athletes. (2009). *College Sports 101*. Retrieved from http://www.knightfoundation.org/media/uploads/publication_pdfs/2009_KCIA_College_Sports101.pdf
