

# ***Why Do So Many People Value the Stock Market***

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**Abstract:** In 2020, the impact of the COVID-19 pandemic plunged the world into its worst economic crisis since 2008, and international trade was frustrated by the double whammy of escalating protectionism and the pandemic in recent years. Affected by the epidemic in 2020, many Chinese companies cannot sustain themselves, and the remaining enterprises are only barely maintaining the status quo and waiting for the epidemic to pass. During this period, the overall trend of the stock market fell sharply due to the epidemic, but due to the government's policies, it was still pulled up.

**Keywords:** Economic crisis, pandemic, stock market fell.

## **1. Introduction**

A stock is a share certificate that a joint stock company issues to different shareholders as a holding certificate to generate money and to receive dividends and dividends. A shareholder's ownership of one fundamental unit of the company is represented by one share. Every stock has a publicly traded corporation behind it. Each listed firm will issue shares at the same time. Equal ownership of the corporation is represented by each share of the same class. The number of shares held by the company as a proportion of the total share capital of the company determines the size of each shareholder's ownership stake in the company. Shares, which are the main long-term credit instruments of the capital market and a crucial component of a joint-stock company's capital, can be transferred, bought, sold, or pledged. However, the firm cannot be ordered to refund its capital contribution. The first formal stock market was established in the United States; however, the predecessor of the stock market dates back to 1602 when the Dutch began buying and selling shares of the Dutch East India Company on the Amstvr River Bridge. The stock market is a hub for both investors and speculators, serving as a cold and hot table for economic and financial activity in a nation or region. It is also where issued shares are traded. Including the exchange market and the over-the-counter market, traded and circulated. It is also known as the secondary market because it is dependent on the issuance market.

## **2. Advantages of the Stock Market**

### **2.1. The Stock Market is Stock Investment**

For ordinary people, investment and financial management is a good way to get rich.

### **2.1.1. The Profitability is Higher than other Investment Varieties.**

People want to make money, they want money to make money, so shareholders like the stock market, like to buy stocks. The stock itself represents its share and assets in the joint-stock enterprise. At the same time can refer to the bank's interest rate for the corresponding comparison, the lower the P/E ratio, the greater the investment value. For investors who want to make a little more money, but don't have any extra liquidity, secondary equity can substitute for loans and achieve capital appreciation without paying any interest [1]. And compared with entrepreneurship, the risk of investing in stocks is not so big, the investment is not so much, as long as the harvest is good, most or earned.

### **2.1.2. Investing in Stocks Gives People More Opportunities**

Buying stocks allows people to get involved in a business that people can't be part of .Buying shares in an industry is a businessman in this industry. People can also get shares by investing hundreds of shares, allowing people to participate in the business of this industry. People take millions to do a physical business, but also may not be able to hit a splash, compared to this kind of huge cost of business, stock investment is a more suitable choice for the public. The stock market allows everyone to do big business and participate in very high-end business.This is a great opportunity.

### **2.1.3. Stock Investment liquidity is Very High**

Buying and selling can be based on their actual needs, when they have enough spare money can immediately buy, and when they are short of money can be timely sold out for funds. This high liquidity can often alter the relationship between supply and demand, affecting stock price volatility. This has also led to the instability of stock prices, which are always up and down sharply [2]. However, it should be noted that people can buy and sell stocks anytime and anywhere on the premise that they must withdraw funds, regardless of the stock price at that time, otherwise it is likely to bring profit losses to yourself.

### **2.1.4. Reduce the Economic Damage Caused by Inflation**

If they put their money in the bank, the interest rate will not outpace the inflation. If they put 100 yuan in the bank for a year, they will only have 95 yuan at the end of the year. At this time, if they buy fund financial products, the loss will be smaller, and they can completely outpace the inflation in the case of profit. And when they invest in stocks and they make money, they don't just beat inflation, they make a lot of money. Of course, stock investments can reduce losses from inflation only if they make a profit, which is impossible if they lose money[3].They also have to bear the risk of losing principal. Therefore, if ordinary people do not have too much spare money, they should not blindly invest in stocks. For those who do not have partial fortune, it is more sensible to keep the principal.

### **2.1.5. Dividends are Available for Long-Term Stock Holdings**

According to the latest national tax policy, holding for more than one year is exempt from dividend tax. Dividends reduce costs, so that the safety of stocks is higher, so some people say that long-term holding of stocks, want to make money is difficult, dividends can also be reinvested, will produce new dividends, which is relative to the donkey rolling profits, high transfer although it does not increase the value of the stock, but lowered the entry threshold, increased the activity of the stock, the probability of the stock rising is high, when the right to fill in the book there is a floating profit, which is also what everyone wants to see. Dividends cannot be underestimated, superficially very few, long-term look down, dividends are the main way to obtain income from stocks.

Holding shares for a long time can enjoy the increase in the intrinsic value of the company. From the perspective of historical development, society is constantly improving, and the stock market is tortuous and upward, and the Shanghai Composite Index has gone from 100 points in 1990 to more than 3100 points to today, more than 30 times in more than 20 years. If you buy an index fund for 27 years, there is also a 30-fold increase, but people want to buy it today, and it will rise tomorrow, and no one looks at the long-term benefits. The development of the company is not overnight, is a long-term process, if they do not share the company's honor and disgrace, they cannot enjoy the company's intrinsic value of the slow increase, this process is calculated in years, but their shareholders are calculated in days or even in minutes, people are accustomed to making quick money, it is difficult to wait for the arrival of this part of the value.

Long-term holding can reduce friction costs. Every transaction we trade is costly, every 10,000-yuan transaction will generate a commission of 3 yuan, and there is a stamp duty of one thousandth of the sale. This part cannot be underestimated, if a person trades once a day, 10,000 yuan will generate a cost of about 16 yuan, a year (about 270 days on the trading day) is 4320 yuan. Trading will push up your costs and eat away at your profits.

## **2.2. Stock Market**

### **2.2.1.Resource Optimization Configuration Feature**

The resource allocation function of the stock market is reflected in two links: First, the resource allocation function of the primary market[4]. As far as China's facts are concerned, Through IPOs, the stock market's resource allocation process is primarily concluded in the primary market. Second, the allocation process of refinancing in the secondary market. It goes without saying that the redistribution of the secondary market is likewise skewed in favor of high-quality listed businesses. The continual financing function of listed companies is the embodiment of the reallocation function of social resources. The basis for the optimization of social resource allocation is the capital optimization of listed companies.

### **2.2.2.The Wind Vane of the Capital Market**

The price of the secondary market for stocks is positively correlated with the caliber of this personal data, and the stock exchange is not only a place for allocating factors of production for capital and goods, but it is also a distribution hub for political, economic, military, and cultural information in a nation and even the world. In essence, the capital market's vane and barometer activities reflect the stability and development of the social, political, and economic situation while serving as a vital reference system for people to trade and assess under market economy settings.[5]

### **2.2.3.Value Discovery Capability**

The capital markets' current and potential value of a stock are discussed in the value discovery function. From a social perspective, it symbolizes a listed company's commitment to the present and future of society and shareholders. This feature is very directly tied to the enterprise's actual information feedback and evaluation.

In order to make informed predictions about the future, people need to be able to understand the fundamental value of an industry and an organization. For example, Goldman Sachs in the United States discovered Microsoft. This discovery is the result of a reasonable process, and it points the social economy in a sensible direction.

Under the conditions of the market economy, the invisible hand of individuals seeking benefits and avoiding harms guides the entire market economy to develop forward. Therefore, to popularize

the idea of the unity of overall interests and partial interests, and advocate the consistency of individual and overall interests, the mystery lies in the fact that private individuals must have the rationality and morality required by society while pursuing their own interests, abide by the law, and abide by integrity.

### **3. Disadvantage of Invest in Market**

#### **3.1. Purchasing Power Risk**

The uncertainty of an investment's actual rate of return due to inflation is referred to as purchasing power risk, also known as inflation risk. Since the securities market serves as a venue for direct financing between businesses and investors, the total supply of socially generated funds has emerged as a crucial determinant of the supply and demand for securities and has an impact on their price levels[6]. There are two separate impacts of inflation on the price of securities. When inflation first starts, it causes a rise in the book value of businesses' fixed assets like real estate, machinery, and equipment. In addition to allowing businesses to profit from raw materials bought at lower costs in the past, rising prices also allow businesses to sell their inventories at a premium price. As a result, the market value of businesses and their shares will inevitably rise. A temporary surge in stock prices is caused by investors buying equities to maintain value while they anticipate an increase in inflation. The false appreciation of corporate and corporate assets is revealed, new production costs are increased due to the rise in the price of raw materials, corporate profits are correspondingly reduced, investors start to throw stocks, and they start to look for ways to preserve the value of other financial assets, all of which will have a negative impact on stock prices and investors. Severe inflation also devalues investor assets and reduces the real purchasing power of stock sale proceeds.

#### **3.2. Interest Rate Risk**

Relates to the interest rates on loans and deposits in the bank's credit operations. Since interest rates are a key economic lever in the economy's operation, they will fluctuate regularly, hurting the stock market. Stock values typically rise as bank interest rates increase, and vice versa[7]. There are two basic sources for this. The security of bank savings deposits is typically much higher than that of stock investments, so once the interest rate on bank deposits rises, money comes out of the capital market. First, the primary goal of people holding financial assets is to procure income, and then when the yield is the same, they are willing to choose the financial instruments with high security. Second, after the increase in bank loan interest rates, the credit market tightens, the flow of corporate funds is not smooth, interest costs increase, production development and profitability will be weakened, and the financial situation of enterprises will deteriorate, resulting in a decline in stock market prices. As a result, the demand for securities investment will decline, the stock price will decline, and the return on investment will subsequently decrease.

#### **3.3. Social and Political Risks**

A stable social and political environment is the basic guarantee for the normal development of the economy, and it is no exception for securities investors[8]. If there is a major change in the political situation of a country, such as a change of government, a problem with the health of the head of state, a disturbance in the country, and a crisis in foreign political relations, it will have repercussions in the securities market. In addition, political and social scandals such as politicians' participation in securities speculation and insider trading by securities practitioners will also pose a great threat to the stability of the securities market. A typical example is the "Licolot Incident" that occurred in Japan in the 1980s, which has such a wide range of influence and a long impact time. The impact of

uncertainties in the social and political spheres on stock investment is also manifested in "national risk". For those joint-stock enterprises engaged in direct investment overseas, the stability of the local social and political environment is of great importance to it, and once there is social and political turmoil in the host country, not only will its interests in overseas investment be lost, but also the price of its domestic issuance of shares will also be adversely affected, in other words, this national risk will be transferred to the holders of ordinary shares of the enterprise to a large extent.

### 3.4. Market Risk

One of the most onerous concerns that stockholders must deal with is market risk, and its effects on shareholders would potentially being fatal. In the stock market, changes occur quickly, and it is challenging to foresee both their direction and quantity. There are enterprises whose revenues are soaring, but their share prices have declined, and that is something people sometimes encounter; there are also companies that are succeeding and have consistent incomes, but their stocks swing up and down dramatically in a matter of seconds. Changes in investors' overall perceptions about stocks or about particular types or groups of equities are largely to blame for this oddity. Market risk is the fluctuation in most equity securities returns caused on by shifts in consumers' perceptions of stocks especially their forecasts for stock returns.

### 3.5. Exchange Rate Risk

The correlation between exchange rates and investment risk in securities is mostly seen in two areas: First, the appreciation of the national currency benefits businesses whose primary method of operation and production is the importation of raw materials, but it does not benefit businesses whose primary goal is the exportation of their products. The opposite is true when the national currency depreciates; secondly, in nations where currencies are freely convertible, exchange rate changes may also result in capital exports and imports, which can have an impact on the supply and demand of domestic monetary funds and the pasteurization markets[9].

## 4. Conclusion

Opportunities in the stock market are pyramidal and severely differentiated. Equivalent to saying that you find your place in the stock market, the stock market gives you an endless amount of things, people don't find this position, people waste time in the stock market, waste money. The stock market is such a place, figured it out, found its own positioning, it is not difficult to make money, which is why, the major capital is gathered in the stock market, entrepreneurs to lay out equity, funds, private placement, securities, foreign capital, social security, insurance, annuities, pension insurance, etc. also want to invest in enterprises, many large households, floating capital to win the difference, large institutions also have to do the difference. It can be said that the stock market is a place where soldiers must fight, not a black market, but a place full of gold. It's just that the gold here is very heavy, and those who can't move it will be crushed to death.

Fear the stock market, take the stock market seriously, study the enterprise well, study the investment direction of various funds, what is suitable for people? people find it, and people grind it, and people get a piece of the stock market.

Many people lose money is not a problem of the stock market, it is their own problem, people come to the stock market, and people don't look up to the stock market, people didn't think of such a big risk in the stock market, people despise the stock market, they think they can gamble. This is true of 99% of people who lose money. Not the stock market itself, but the investors themselves[10]. As long as investors really realize the risk of the stock market and begin to learn how to control risk, they will slowly find the profit point of the stock market and can really get wealth in the stock market. As

long as people still think that anyone can make money in the stock market, then people can't make money in the stock market for the rest of their life. When they really realize that the threshold of the stock market is and are willing to cross the threshold in a down-to-earth manner, then the wealth door of the stock market will soon open for their.

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