

L5 – Chapter 2 Nasdaq vs. NYSE – Differences Between the Major U.S. Stock Exchanges

The stock market is a vast and exciting place. Wealth is both built and lost in a system that gives the average person the ability to own a share of some of the largest companies in the world.

Apple, Alphabet, and Amazon all trade with a market capitalization in the trillions of dollars, and thanks to the United States stock market, you have the ability to own your piece of these companies.

Individuals and institutions buy and sell shares of companies in one of many marketplaces known as stock exchanges. These exchanges not only facilitate the transfer of shares, but they also regulate the companies listed on them to ensure ethical measures are being taken by the companies to protect the wealth of their investors.

What Is a Stock Exchange?

A stock exchange is essentially a marketplace where investors buy and sell pieces of a company, known as stock. The best-known U.S. stock exchange is the New York Stock Exchange, also known as the NYSE, but it is not the only place to buy and sell shares of stock in the United States.

What Is the New York Stock Exchange (NYSE)?

The New York Stock Exchange is the largest stock exchange in the world based on the total market capitalization of listed companies, with a total market capitalization of more than \$22 trillion as of December 2020.

Located in New York City, the NYSE was launched in 1792, and the buildings that housed it were named as historical landmarks in 1978. The trading floor of the New York Stock Exchange has been immortalized in countless films.

Nicknamed the Big Board, some of the largest and oldest companies in the world are listed on the NYSE. It's the home of stocks like Apple, Microsoft, Amazon.com, and Alphabet, which collectively make up nearly \$7 trillion of the \$22 trillion market capitalization across the entire NYSE.

The NYSE is also home to stocks like The Bank of New York Mellon Corporation, Consolidated Edison, and Procter & Gamble — three of the oldest companies in the United States.

Often, beginner investors confuse the NYSE with the American Stock Exchange, or AMEX, which has become known as the NYSE American. Although the owners of the NYSE also own the NYSE American, it is important to understand the difference between the two, because companies listed on the NYSE American aren't held to the same standards as companies listed on the NYSE.

What Is the Nasdaq Stock Exchange?

The Nasdaq is the oldest stock exchange in the United States. It was originally founded as the Board of Brokers of Philadelphia. Later, the name of the exchange was changed to the Philadelphia Stock Exchange before another name change that would lead to the Nasdaq as we know it today.

Today, the Nasdaq is the second-largest stock exchange in the United States by market cap of its listed companies.

Although both the NYSE and the Nasdaq offer up a diverse list of stocks across every sector you can think of, the Nasdaq is heavily weighted toward biotechnology and technology companies. As a result, the Nasdaq is commonly referred to as a tech-heavy exchange.

Assets Found on Stock Exchanges

The Nasdaq and NYSE are home to some of the world's largest and oldest stocks. However, stocks aren't the only asset that you'll find on these exchanges. Other assets include:

- **ETFs.** Exchange-traded funds (ETFs) are bucket investments that represent ownership in a heavily diversified list of stocks or other financial assets. Some of the most high-quality ETFs are found on the Nasdaq and NYSE.
- **Mutual Funds.** Mutual funds are also bucket investments. However, these are actively traded funds that generally come with a higher expense ratio than ETFs.
- **Derivatives.** Both the Nasdaq and NYSE also offer ways to access derivatives. For example, those who would like to trade options can do so through the U.S. Options Exchange offered by Nasdaq.
- **Fixed-Income Assets.** Fixed-income securities offer payments to investors that are viewed as income on a fixed basis. For example, bonds and preferred stock will provide investors with quarterly payments of coupon rates or dividends with a predetermined value.
- **Commodities.** The Nasdaq and NYSE are also where you'll find the paper equivalent of commodities like gold, silver, and oil.

Benefits to Being Listed on a Major U.S. Stock Exchange

Becoming and staying listed on a major stock exchange is hard work for companies. These exchanges have stringent listing requirements and uplisting — moving a company's stock from a smaller marketplace onto a national exchange like the Nasdaq or NYSE — can cost tens or even hundreds of thousands of dollars.

For example, the Nasdaq charges a \$25,000 application fee to uplist. That cost comes after the cost of paying experts like accountants, attorneys, and other high-value professionals.

Nonetheless, thousands of companies have been willing to pay the price, and for good reason. There are several benefits to being listed on a major U.S. stock exchange.

Benefits for Exchange-Traded Companies

For the companies that uplist to the Nasdaq or the NYSE, there are several benefits:

- **Validation.** Being listed on one of the major U.S. stock exchanges offers a level of validation for the company's work and its clout as an investment. After all, to be listed, companies must comply with strict listing standards.
- **Liquidity.** There are far more investors willing to invest in companies listed on a major U.S. stock exchange than there are that are willing to invest in companies listed on over-the-counter, or OTC, exchanges. As a result, companies listed on the Nasdaq or NYSE benefit from higher levels of liquidity because there's plenty of demand for their stock.
- **Inclusion In Index Funds.** Index funds are bucket investments that attempt to mirror the return of their underlying index. To do so, these funds must purchase all assets listed on the underlying index they are based upon. So, by being listed on a major U.S. stock exchange, companies enjoy inclusion in these index funds, ultimately increasing demand and providing support for price appreciation.

Benefits for Investors

There are also benefits for investors who invest in stocks listed on major exchanges rather than those listed on the over-the-counter (OTC) market. The most significant of these benefits include:

- **Lower Risk.** Due to the stringent listing requirements maintained by companies listed on the major U.S. stock exchanges, these stocks generally come with lower levels of risk than those traded on the less regulated OTC markets.
- **Liquidity.** If a stock listed on an OTC market — where demand is far lower — falls, you may find it difficult to get rid of your shares when you want to sell. However, the ability to liquidate your holdings is generally not an issue when it comes to stocks listed on the Nasdaq or NYSE.
- **Communication.** One of the most important listing requirements that protect investors is the requirement from both the Nasdaq and the NYSE that all listed companies consistently provide quarterly and annual financial reports. They are also required to communicate major changes to investors, such as changes in management or major transactions or acquisitions. Many companies listed on the OTC market are either underreporting or not reporting at all, further increasing the risk of an investment in these companies.

Other Stock Exchanges

The Nasdaq and NYSE are considered the largest stock exchanges in the United States, but they are definitely not the only exchanges. Some of the most popular smaller exchanges include:

- The Boston Stock Exchange (BSE)
- Chicago Board Options Exchange (CBOE)
- Chicago Board of Trade (CBOT)
- Chicago Mercantile Exchange (CME)

- Chicago Stock Exchange (CHX)
- International Securities Exchange (ISE)

The concept of investing stretches far beyond Wall Street. Investors also have the option of purchasing shares of stock through international exchanges around the world. Some of the most popular stock exchanges for investing in global markets include:

- **Toronto Stock Exchange (TSX).** The TSX is the largest stock exchange in Canada.
- **Shanghai Stock Exchange (SSE).** The SSE is the largest stock exchange in greater China.
- **The Stock Exchange of Hong Kong (HKEX).** The HKEX is the largest stock exchange in Hong Kong.
- **London Stock Exchange (LSE).** The LSE is the flagship stock exchange of England.
- **Euronext (EUXTF).** Finally, the Euronext is the major stock exchange of Europe.

Final Word

Stock exchanges are marketplaces where stocks are bought and sold. However, not all stock exchanges are created equal. Beginner investors should only invest in stocks that are listed on major U.S. stock exchanges. Doing so will help you avoid undue risk.

As you learn more about investing and look to diversify your portfolio by adding international assets or small-cap stocks with compelling potential, it will be time to look outside of the Nasdaq and NYSE for investing opportunities.

It's also important to remember that, although assets listed on one of the two major U.S. stock exchanges generally come with lower levels of risk, anything can happen in the stock market. Being listed on the Nasdaq or NYSE is not a guarantee that the value of the stock will rise and gains will be achieved. As such, it's important to do your research before investing in any stock or other financial asset, regardless of which exchange it's listed on.