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This book deals with the following issues:

- the structure of financial markets with special reference to the UK;
- the analysis and valuation of securities traded in financial markets;
- the use of securities in constructing portfolios, in managing portfolios and in contributing to portfolio performance;
- the causes of failure in financial markets;
- recent developments in the analysis of financial markets.

The aim is to provide readers with a good understanding of the practice of analyzing financial markets from within the framework of modern finance theory. Modern finance theory offers certain predictions about how an efficiently organized financial system operates, and we will examine the practice of financial market analysis in the light of these predictions. For example, we will examine how securities such as bonds and shares ought to be analyzed and evaluated in the light of modern finance theory. Similarly, we will examine how securities ought to be structured in portfolios and how these portfolios ought to be managed in the light of modern finance theory. We can then compare the theory with the real world of security analysis and evaluation, and the theory with the real world of portfolio structuring and management, in order to determine how well practice corresponds with the theory, or, alternatively, how difficult the theory is to implement in practice.

This book was originally written for an advanced undergraduate course in financial market analysis at City University Business School. I felt that what was badly needed was a text that provided a comprehensive and up-to-date treatment of the analysis of financial markets, using numerous practical illustrations from the UK financial markets. The text should be sufficiently rigorous and should pay due attention to modern finance theory and its implications, without being a text on the principles of finance, of which there are many good examples. It should also provide sufficient illustrations of the various financial instruments and how they are used, but without being merely a handbook for professionals.

The nearest existing texts did not, in my view, meet these objectives. In particular, they paid inadequate attention (or worse, no attention at all) to the following issues:

- new types of investment product (e.g., synthetic securities, swaps, exotic options);