

1. Explain the relationship between earnings and a stock's market value.

Earnings are the revenues left over after deducted all expenses and losses. Stock's market value is theorise of asset received from market place which is generally accepted investment principle: A growing company deserves a higher price because it can generate a larger return on investment. On the other hand, company with low growth performance or declining companies would reflected in low price of stock in the market. Higher earnings usually turn into higher stock prices that investors seek to profit from the growth of a successful company. An unexpected drop in earnings can lead to a rise in stock sell-off that can decimate prices.

2. Which type of stock could help you obtain your investment and financial goals? Justify your choice?

At my retirement age, excluding from income from doing business, I expect to have about 5 million from investing in stock. Since blue chip stock is a stock from a giant companies with good reputations that generally composed of the most reputable market indexes, investing in this type of stock is trustable and matched with my goal at retirement age

3. What sources of information would you use to evaluate a stock issue?

In my opinion, I would choose to focus on price-to-earning ratio since this ratio is the most common and easy to observe one. For example, if a sudden increases in stock price is abnormal, the price to earning ratio is observable. A stock can go up in value without significant earning increases but without the reasonable earning to support this rise, the stock will fall back down at the end

4. What is the difference between the primary market and the

secondary market?

Primary market is the market where company issues securities and hires the investment bankers to obtain commitments from large institutional investors to purchase the securities when first offered. On the other hand, secondary market is the market where securities are traded after the company has sold all the stocks and bonds issued in primary market. In conclusion, the difference between primary market and secondary market is that the primary market is the market where investors buy securities directly from the company, while the secondary market is the market where investors trade securities among themselves.

5. Calculating Total Return. Tammy Jackson purchased 100 shares of All-American Manufacturing Company stock at \$31.50 a share. One year later, she sold the stock for \$38 a share. She paid her broker a \$28 commission when she purchased the stock and a \$42 commission when she sold it. During the 12 months that she owned the stock, she received \$160 in dividends. Calculate Ms. Jackson's total return on this investment.

Current Return = \$160 in dividends over the past 12 months

Purchase Price include commission fees = $(31.50 \times 100 \text{ shares}) + 28$
= \$3,178

Selling Price include commission fees = $38 \times 100 \text{ shares} - 42 = \$3,758$

Capital gain = $3,758 - 3,178 = \$580$

Total Return = \$160 Current Return + \$580 capital gain
= \$740.