

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

The relationship between a company's earnings and its stock price can be complicated. High profits don't necessarily mean a high stock price, and big losses don't always lead to a low stock price. Of course, without earnings it is hard for companies to stay in business for long. Two of the major factors that influence stock price are current earnings and promise of future earnings. If a company doesn't produce consistent earnings growth or lower its P/E ratio over time, investors might choose to sell the stock, sending its price lower. Young or growth-oriented companies that have extremely high P/E ratios or lose money might have a high stock price due to projected future growth. But eventually a lack of earnings over a long period of time will drive a stock price down and the company potentially out of business.

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

My long-term financial goals are to have a stable income every year and to have some capital gain. I preferred high dividend stock because this kind of stock is less risky.

Moreover, at the present, I did not do much research on stock market or stock's information. So, I am not confident to invest in short term basis (purely technical). I am more of fundamental investors, investing long term.

In the future, after I graduate, I will search for more information and may change my mind. I may invest more on growth stocks if I found some opportunity and after searching for enough information.

The value stocks could help me obtain my long-term financial goal. However, if I see some opportunity to invest in some of the growth stock, I would do so.

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

Firstly, I will look at what business the company is doing, understand their business model, how the profit of the company being generated from. Who are the competitors, suppliers and buyers? Cooperates governance of the company? How well the industry is doing?

Secondly, I will looking at the company's ratios and compare them to the industry average and historical trends.

The financial ratios are ROA and ROE (a leading measure of company's efficiency), company's earnings (profitability is an important consideration), price to earnings ratio (P/E), dividend yield, price-to-book ratios, etc.

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

In the primary market, investors buy securities directly from the company, while in the secondary market, investors trade securities among themselves, and the company does not participate in the transaction.

When a company publicly sells new stocks and bonds for the first time, it does so on the primary capital market. In many cases, this takes the form of an initial public offering, or IPO.

The secondary market is where securities are traded after the company has sold all the stocks and bonds offered on the primary market. Markets such as the New York Stock Exchange (NYSE), London Stock Exchange or The Stock Exchange of Thailand (SET) are secondary markets. On the secondary market, small investors have a better chance of buying or selling securities, because they are no longer excluded from IPOs due to the small amount of money they represent. Anyone can purchase securities on the secondary market as long as they are willing to pay the price for which the security is being traded.

On the secondary market, an investor requires a broker to purchase the securities on his or her behalf. The price of the security fluctuates with the market, and the cost to the investor includes the commission paid to the broker. The volume of securities sold also varies from day to day, as demand for the security fluctuates. The price paid by the investor is no longer directly related to the initial price of the security as determined by the first issuance, and the company that issued the security is not a party to any sale between two investors. However, the company can engage in a stock buyback on the secondary market.

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.

Purchased 100 shares, Dividends \$160, Commission is $28+42 = \$70$

Initial amount invested is $100 \times 31.5 = \$3150$

Amount receive at the end = $100 \times 38 = \$3800$

From \$31.50 to \$38, gain $38-31.5 = \$6.5$ per share (100 share gain \$650)

Total return in term on dollar = **\$740**

Total return on investment = $[(3800 + 160) - 3150 - 70] / 3150$

= 0.2349 or **23.49%**