

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

Answer : The earning of the company and the stock price do share relation, in the case that the company earn very little or make loss, the price of the stock can get lower due to the fact that the business does not look so promising. Furthermore, if the earning of the company is high, the stock price would then tend to move up as the investor expect the company to grow. However, the relationship between earning and stock price can be complicated due to the fact that sometime the company stock price is base on investor expectation, even if the company make loss, sometime we can see rise in the stock price as the investor might believe that the company would surely doing good in the future.

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

Answer : SETHD would be good, as SETHD is the market where the company paid lots of dividend and also have relatively low risk, if we hold the SETHD we can expect the cashflow properly and can plan our spending properly as well.

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

Answer : We can look at the annual report and get the financial information of such company in order to calculate key financial ratio which would guide us to what the intrinsic value of such stock should be.

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

Answer : In primary market the investor purchase the stock directly from the company that issue the share, while secondary market is where the investor trade stocks among each other.

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.

Answer : She paid total of $(100 \times 31.50) + 28 = \$3,178$

She receive total of $(100 \times 38) + 160 - 42 = \$3,918$

Return on investment is $\$740$ or 23.29%