

1. When earnings, dividends, and cash flow per share increase above what was expected, investors are willing to pay more for the stock and then the stock price increases. Whereas the earnings, dividends and cash flow per share decreases beyond what was expected by the market, investors are less willing to pay for the stock, and hence the stock price declines. High profits do not necessarily mean a high stock price, and big losses do not always lead to a low stock price. You could say that two of the major factors that influence stock price are current earnings and promise of future earnings. Earnings Per Share The first step in understanding the relationship between the price of a stock and its earnings is to look at its earnings per share, or EPS. The EPS tells you how much income the company generated for each share of stock. Price to Earnings Ratio The direct relationship between the price of a stock and its earnings is known as the price per earnings ratio, or P/E. To calculate P/E, simply divide the stock price by the EPS, typically over the most recent four quarters. Impact of Earnings on Stock Price 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.

2. The general classifications of the common stocks are as followed. Growth stocks are shares in a company whose earnings are expected to grow at an above-average rate relative to the market and its sales and earnings growth have outpaced the market. Income stocks tend to be among the least volatile of all stocks, and many investors view them as defensive stocks. Defensive stocks are stocks of companies that sell goods and services that are generally needed no matter what shape the economy is in. Cyclical stocks tend to be highly correlated with the overall business cycle, so an investor can invest in a cyclical stock and capture gains during upward movements in the business cycle. An investor can combine cyclical stocks and non-cyclical stocks to create a diversified portfolio that protects him from volatility. If an investor can invest in a cyclical stock at the bottom of the business cycle and subsequently sell the stock at the top of the business cycle, he maximizes capital gains for that stock over that period.

3. The basic measure of a stock's worth involves that company's earnings. When you buy a stock, you're acquiring a piece of the company, so profitability is an important consideration. The business can pay you for your ownership stake in several ways. It can give you a portion of the profits which for shareholders comes in the form of a periodic dividend. It can continue to expand the business, reinvesting money earned to increase profitability and raise the overall value of the business. In such cases, a more valuable business makes each piece, or share, of the business more valuable. In such a scenario, the more valuable share merits a higher price, giving the share's owner capital appreciation, also known as a rising stock price.

Not every company pays a dividend. In fact, many fast-growing companies prefer to reinvest their cash rather than pay a dividend. Large, steadier companies are more likely to pay a dividend than are their smaller, more volatile counterparts.

The most common measure for stocks is the price to earnings ratio, known as the P/E. This measure, available in stock tables, takes the share price and divides it by a company's annual net income. As a general rule of thumb, stocks with P/Es higher than the broader market P/E are considered expensive, while stocks with a below-market P/E are considered cheaper.

But P/Es are not still a perfect measure. A company that is small and growing fast may have a very high P/E, because it may earn little but has a high stock price. If the company can maintain a strong growth rate and rapidly increase its earnings, a stock that looks expensive on a P/E basis can quickly seem like a bargain. Conversely, a company may have a low P/E because its stock has been slammed in anticipation of poor future earnings. Thus, what looks like a “cheap” stock may be cheap because most people have decided that it’s a bad investment. Such a temptingly low P/E related to a bad company is called a value trap.

4. The primary market investors buy securities directly from the company issuing them, while in the secondary market investors trade securities among themselves, and the company with the security being traded does not participate in the transaction. When a company publicly sells new stocks and bonds for the first time, it is on the primary capital market. When investors purchase securities on the primary capital market, the company offering the securities has already hired an underwriting firm to review the offering and created a prospectus outlining the price and other details of the securities to be issued. Companies issue securities via the primary capital market hire investment bankers to obtain commitments from large institutional investors to purchase the securities when first offered.

5.

- Current Return = \$160 in dividends over the past 12 months Purchase Price = \$31.50 100 shares + \$28 commission = \$3,178
- Selling Price = \$38 100 shares - \$42 commission = \$3,758
- Capital gain = \$3,758 - \$3,178 = \$580
- Total Return = \$160 + \$580 = \$740