

## Assignment 5

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

In order to reach a financial goal, I would rather go with the stock which have both growth and some dividends. During the investment, we could gain a dividend to use in our daily and the leftovers would be reinvested in the old one or the new one. And with its growth, we can also grow with the company. With this type of stock where both growth and dividend payment exists could help me obtain investment and financial goals in long run.

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

If the earning per share of the company increases meaning that the dividend that investors get will be higher. With this expectation, investors have an incentive to pay more for the shares since they could gain more resulting in higher demand for the stock. As a result, the stock price increases. And vice versa for the case that earning per share decreases.

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

Primary Market is where the firms initially issue a stock through IPO or Initial Public Offerings which is processed by investment bankers as an underwriters. And in this market, the firm will get a money as a fundraising from the investors.

For Secondary market, it is where the investors trade shares among themselves which is controlled by the organized exchange system. In this market, the firms don't get any money from the investors since they get the money only from the initial issuance.

4. 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.

Costs when purchased

100 shares at \$31.50 a share = \$3,150

Commission from purchasing = \$28

Total Investment = \$3,178 (Cash Outflow)

Return when sold

100 shares at \$38.00 a share = \$3,800

Commission from selling = -\$42

Total Return = \$3,758 (Cash Inflow)

Total Return from selling + Dividends = \$3,758+\$160= \$3,918

**Total Return for transaction = \$3,918-\$3,178=\$740 (Profit)**