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FN281 Assignment 5

1. **Which type of stock could help you obtain your investment and financial goals? Justify your choice.**
   The type of stocks I would like to invest to obtain my financial goals is blue chip stocks. My plan is to invest in stock and hold for years. I would like to invest in stocks that has the competitive advantages. Also, I would invest in stock that I understand its business model.

2. **Explain the relationship between earnings and a stock's market value.**
   If a firm has a good performance than an expectation, the stock's market value would rise (a positive relationship), as the investors are willing to buy more stocks (higher demand), so the price rises.

3. **What is the difference between the primary market and the secondary market?**
   The primary market is the market a company sells the stocks as IPOs to raise funds and issue new stocks. Normally, it sells securities based on agreements (sell to big institutions rather than the public).
   The secondary market is the market that trades the existing stocks via OTC. It trades stocks in the public.

4. **Calculation 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.**

   Total return= capital gain + dividend

   Cost of buying shares= (price of stock) *(amount of shares)+ commission
   = (31.50)*(100) + (28) = $3,178.
   A year later, the amount earned from selling stocks= (price sold)*(amount of stocks)-commission = (38)*(100)-42= $3,758
   Capital gain= 3,758- 3,178= $580
   Total return = Capital gain+ dividend = $580+$160 =$740.

   The total return Ms. Jackson gets is $740.