

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

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. You could say that two of the major factors that influence stock price are current earnings and promise of future earnings.

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

Blue-chip and growth stocks could help me obtain my investment and financial goals. As first blue-chip stock has strong, stable and mature, with a long history of consecutive quarterly dividends; may also be a suitable investment for an investor with an income objective. Second, growth stock also has strong potential for improving profits. The company's earnings are growing faster than the overall economy, and thus the stock has a strong potential for outperforming the market.

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

The sources of information that i would use to evaluate a stock issue are Financial section of the Newspaper, the internet, stock advisory services and corporate news. The most basic measure of a stock's worth involves that company's earnings and the growth of the company. When you buy a stock, you're acquiring a piece of the company, so profitability is an important consideration. Imagine buying a store. Before deciding how much to spend, you want to know how much money that store makes. If it makes a lot, you'll have to pay more to acquire it.

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

A primary market is one in which a stock is being offered directly from a company to investors for the first time. This happens most commonly during an initial public offer. In contrast to this, a secondary market is a market in which investors are buying stocks from and selling stocks to one another. These are stocks that have already been issued by the firm and sold to some investor on the primary market. When that investor wishes to sell the stock, he or she does so by selling it to some other investor on the secondary market.

The difference, then, is that primary markets involve stocks being sold for the first time by a firm directly to investors while secondary markets involve investors dealing existing stocks with one another.

**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.**

Current Return = \$160 in dividends over the past 12 months

Purchase Price =  $\$31.50 * 100 \text{ shares} + \$28 \text{ (commission)} = \$3,178$

Selling Price =  $\$38 * 100 \text{ shares} - \$42 \text{ (commission)} = \$3,758$

Capital gain =  $\$3,758 - \$3,178 = \$580$

Total Return =  $\$160 \text{ (Current Return)} + \$580 \text{ (capital gain)} = \$740$ .