**FN281 Assignment 5** Jinna Wichakoon 5904640900

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

As I would like to achieve my financial goal from investment, I would diversify my portfolio with several types of stock to minimizing risk of loss in the case that one investment perform poorly and still generating a return. The type of stock that I think it potentially can help me to reach my Longterm-Investment plan are

1. **Blue-Chip Stock** as it somehow demonstrated record of stable earning power over several decades together with reward shareholders by pay out the dividend. Moreover, Blue-chip companies offer security during periods of slowed growth due to their experienced management teams and ability to generate stable profits. If the stock market is experiencing a bear market, blue-chips generally recover.
2. **Income stock** which is typically either have a very loyal customer base or a firm grasp on the majority market share that normally pays high dividend and have low growth rates like utility companies. With this type of stock, we can ignore most of the market movement and I do not have to sell when the market or the securities that I hold have risen to realize profit.
3. **Growth stock** that anticipate to generate substantial capital gains as it can create more upside gain but it comes together with more risk. However, I see growth stocks as an option for diversification because they are often overvalued due to the fact that the market will foresee and forecast the future income.

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

Company's earning can influence stock price by changing market perceptions and investor confidence of the company. It will provide a market with a glimpse on how stocks will likely be valued in the future. Before earnings are released, stock market analysts have issued estimates for what they believe a company's earnings will be, which they have calculated based on company guidance, market conditions, management performance and other models and metrics that help forecast performance. Stock prices tend to rise when earnings results exceed market expectations while disappointing earnings results tend to lower share prices due to failing investor confidence in the company's ability to generate profits.

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

In the primary market, investors buy securities directly from the company issuing them, this takes the form of an initial public offering (IPO). While in the secondary market, investors trade securities among themselves. Markets such as the New York Stock Exchange (NYSE), London Stock Exchange or Nasdaq are secondary markets. With secondary market, small investors have a better chance of buying or selling securities, because they are no longer excluded from IPOs due to the small amount of money they represent. Anyone can purchase securities on the secondary market as long as they are willing to pay the price for which the security is being traded. Investors in this market also having a broker to purchases the securities on behalf of them. The price of the security fluctuates with the market, and the cost to the investor includes the commission paid to the broker.

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.

Tammy purchased 100 shares at $31.50 a share. 100*31.5 = 3150 + $28 commission = $3178 (Cost)
one year later she sold stock at $38 a share. 100*38.0 = 3800 - $42 commission = $3758 (Sell)
she received $160 in dividends

So, Jackson's total return on this investment = $3758 + $160 - $3178 = $740