

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

As I am risk-averse investor, I would prefer to invest in stock that not only give me low level of risk but also give me high level of return. So I decided to invest in "Blue-Chip stock" which is the stock of a large, well-established and financially sound company that has operated for many years. A blue-chip stock typically has a market capitalization in the billions, is generally the market leader or among the top three companies in its sector, and is more often than not a household name. Some examples of blue-chip stocks are IBM Corp., Coca-Cola Co. and Boeing Co.

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

Earning and a stock's market value have positive relationship. When the earning of the company increase, stock market's value also increases. If you want to invest or purchase any securities, you should have to look on how the company's performance. The earning and stock's market value. However, the relationship does not always be positive. In short run, it can be negative works in positive direction.

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

The primary market is where initial sales of securities are made to the public by the firm. While the secondary market is where previously issues securities are trade among individuals and institutions.

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.

Cost when purchased		Return when sold	
100 shares @ \$31.50	- \$3,150	100 shares @ \$38	- \$3,800
Plus, Commission	<u>+28</u>	Minus, Commission	<u>-42</u>
Total Investment	\$3,178	Total Return	\$3,758

Transaction summary

Total return	\$3,758
Minus total investment	<u>-3,178</u>
Profit from stock sale	\$580
Plus dividends	<u>+160</u>
Total return of the transaction	\$740