

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

Earnings affects one of the key indicators of the stock, Earnings Per Share (EPS). EPS tells how much income the company could make for each share of stock. The higher earnings result in a higher EPS. Low EPS sends a bad signal to investors and may cause them to sell the stock, then the stock's market price will be lower.

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

With an ultimate objective of having 2 big equity portfolios, value-investing and day-trading, the stocks of choice then are blue-chip stocks and speculative stocks, respectively.

For the value-investing portfolio, the blue-chip stocks mostly are in their mature state (not growing or losing much) with majorities are paying high dividend yield and are in the SETHD too. So such stocks in these criteria are suitable for a portfolio that has 1 or 2 yearly transactions.

For the day-trading portfolio, the stock prices have to be volatile to meet a short-time holding behaviour. The speculative stocks are the way to go with high volatility and liquidity.

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

Rumours from people on social network as the fastest source to get ready for any unexpected events. Then, reliable sources like CNN, BBC, Bloomberg Business, The Economists, The Independent or Reuters to check. After that, before executing any orders in the stock exchange, some checking at the volume of trading with candlestick patterns are necessary.

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

The investors can buy securities directly from the issuers in the primary market.

The investors trade the securities among themselves (not with issuers) in the secondary market.

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.

$$\text{BUY: } \$31.50 \times 100 + \$28 = \$3,178$$

$$\text{SELL: } \$38 \times 100 - \$42 = \$3,758$$

Then, the capital gain is $\$3,758 - \$3,178 = \$580$ and the total return is $\$580 + \$160 = \$740$.