

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

Earnings is the revenue after deducting expenses and losses. This can be used to pay dividends or pay debt. The relationship between earnings and a stocks' market value is one that is not direct. High earnings does not reflect a high stock price, nor does big losses lead to low stock price. Earnings basically serve as a benchmark that investors can use to gauge the company's performance with given market expectations. Promise of future earnings can also influence stock price.

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

To obtain my financial goals, my investments will be made mainly in two ways—short-term and long-term. Short-term investments will be on growth stocks, which are expected to grow at an above-average rate relative to the market. Although this type of stock has higher risk, I am not risk averse, thus making it a good choice. For long-term investments, I choose to invest in mutual funds, including themed mutual funds. In addition to this, blue chip stocks should also provide a good payback, as they are companies with high and stable profiles which should be growing constantly in the future.

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

Sources of information that I would use to evaluate a stock issue are the internet, stock advisory services, corporate news, as well as financial section of the newspaper.

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

Primary market is where newly issued securities are traded through investment banks. Funds are raised by issuing financial instruments for the initial public offering and seasoned public offering. On the other hand, secondary market is where securities are traded among investors.

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.

Initial purchase = $\$31.50 \times 100 \text{ shares} + \$28 = \$3,178$

Selling = $\$38 \times 100 \text{ shares} - \$42 = \$3,758$

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

Total return = $\$160 + \$580 = \$740$