

#### Individual Assignment4

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

The relationships between earnings and stock's market value arise when you want to measure the stock's relative value or is it overpriced or underpriced and factor that drive Price/Earning ratio up and down is when the higher firm's earnings growth rate the higher firm's P/E ratio and The higher the investor's required rate of return the lower the P/E ratio. As The price-earnings ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its earnings.

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

To obtain my goals refer to projects or financial goals that need funding two to five years from now such as paying for future college costs ( my master degree ) or paying for any expenditure or project conservative or large cap stocks may be suitable for intermediate-term financial goals as the large cap stocks refer to the level of capitalization.

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

The Financial section of the Newspaper, the internet, stock advisory services and corporate news. Another way as investor we can evaluate a stock issue by looking for companies that post year-to-year growth in earnings and strong companies will generate a lot of cash and have a large flow of free cash also company's net margin is simply net income divided by sales.

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

The primary market is the first time that company newly issue the stock in public Investors can buy securities directly from the company issuing them whereas the secondary market is for trading already issued securities and Investors trade securities among themselves, and the company with the security being traded does not participate in this transaction.

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 Dividends = 160 over the past 12 months

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

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

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

Total Return = 160 Current Return + 580

or capital gain = 740.

