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FN281: Personal Finance

Assignment 5

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

Answer : First, I set my long-term investment goals as retirement planning, because this investment is the amount money which I use in the age of out of any job. In the elderly, I must to reserve some amount of money to insure the frailty health. The type of stock that I could to invest is "Blue chip", because it's a safe investment that generally have low risks. I would decide to invest the stock by its intrinsive value.

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

Answer : Company's ability generate the earnings which is the most significant association to the value of stock's market. It's a factor that account to increase or decrease value of the stock depend on how ability or inability of company. If earnings of company is increasing, market value of stock would likely rise too. However, if earning is decreasing, the price is also go down.

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

Answer : In the primary market, securities are offered to public for subscription for the purpose of raising capital or fund. Secondary market is an equity trading avenue in which already existing/pre- issued securities are traded amongst investors. Secondary market could be either auction or dealer market. While stock exchange is the part of an auction market, Over-the-Counter (OTC) is a part of the dealer market.

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.

Answer :Buy stock 100 shares at $31.5 (x100 = $3,150)
*commission added ($28)
Earn : $3,178
Sell stock 10 shares at $38 (x100 = $3,800)
*commission added ($42)
Diveidend received is $160
Gain : $3918
Total return = Gain - Earn = $740 (Gain)