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Assignment 5 (FN281)

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

Ans. Firstly, I have to analyze characteristics of my financial goals that how long it should be success and what is the main strategy that relate to my income. For example, I have long-run goal, so I decide to invest in “Blue chip stock” because blue-chip stock have stable earning and companies offer security during periods of slowed growth. In the long-run, an investor can benefit from dividend payments and generate portfolio income. The dividend payments help to protect against the adverse effects of inflation. Blue chips have strong balance sheets and cash flows, strong business models and strong, consistent growth. In short, for set the long term financial goal, blue-chip stock is choice that I think it most proper to me.

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

Ans. If a company doesn't produce consistent earnings growth or lower its P/E ratio over time, investors might choose to sell the stock, sending its price lower. Young or growth-oriented companies that have extremely high P/E ratios or lose money might have a high stock price due to projected future growth. But eventually a lack of earnings over a long period of time will drive a stock price down and the company potentially out of business.

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

Ans. Primary and secondary markets work is key to understanding how stocks, bonds and other securities trade. Without them, the capital markets would be much harder to navigate and much less profitable. The difference between the primary market and the secondary market is that in the primary market, investors buy securities directly from the company issuing them, while in the secondary market, investors trade securities among themselves, and the company with the security being traded does usually not participate in the transaction.

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.

Ans. Purchased 100 shares * $31.50 per share = $3,150 with the commission fee $28. Therefore, the total cost that Tammy has to pay is $3,150+$28 = $3,178. One year later, she sold her stock 100 shares * $38 per share = $3,800 with the commission fee $42, receive $160 in dividends. Therefore, she will earn from investment by ($3,800-$42)+$160 = $3,918. In summary, Ms. Jackson's total return on this investment is $3,918-$3,178 = $740, so she can make profit $740 from this investment.