

Individual Assignment 4

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

ANS: The relationships between earnings and stock's market value is used to measure the price-earnings ratio (P/E Ratio) which calculated by Market Value per Share / Earnings per Share. The P/E ratio is the ratio for valuing a company that measures its current share price relative to its earnings. High earnings would show in the income statement determined that it will courage investor to buy the stock and mostly current stockholders want to keep the stocks and sell it in the future.

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

ANS: Blue chip stocks will help me obtain my financial goals because they they are often the top three companies in its sector which provide stable growth and strong cash flow. Even when there is recession, some blue chips stocks have enough power to become stable. These stocks are known to have capabilities to endure tough market conditions and give high returns in good market conditions.

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

ANS:

- 1.) The Financial section of the Newspaper
- 2.) stock advisory services and corporate news.
- 3.) Internet source which provide history of each stock.
- 4.) Annual report of the company

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

ANS: 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 not participate in the transaction. Furthermore, the price of securities in the primary market are fixed while the price in secondary market are depending on demand and supply of the securities trade.

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.

ANS: 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