

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

I would prefer to invest in the blue-chip stock as it was well-established and financially sound company that has operated for many years. For instance, PTT stock is one of the stock that I would invest in since it was a family of best-in-class benchmarks for investors who have recognized that sustainable business practices are critical to generating long-term shareholder value.

However, diversifying a stock is also important. So, rather than blue-chip stock, I would invest in speculative stocks in short term based on my age, I have more ability to bear the high risk. The speculative stock would give us a higher return compare to the blue chip stock but also create a huge loss if it was in downturn. Although speculative stock may occur lose, at least I still earn some capital gain from blue-chip stock.

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

Earnings is one of the factor that can reflects the stock price. If the company gives high earnings throughout the year, this makes the investors have more incentive to buy a stock. The higher number of investors buys the stock, the higher the stock's market value, vice versa.

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

Primary market is where the securities are issued for the first time. It also called as New Issue Market. The securities are traded from the company directly to the investors. All of the prices are fixed and issued at par value. Intermediaries such as investment bankers and underwriters are involved in the market. The amount that received from securities are the income of company.

On the other hand, Secondary market is where securities are traded after the company has sold all the stocks and bonds offered on the primary market. Sometimes, it's called as After Issue Market. Secondary market takes place between the buyer and the seller, company is not involved in transactions. Demand and supply of the traded-securities affect the prices in this market. Brokers and the stock exchange are two examples of the intermediaries which involve in the trading of securities. The amount that received from securities are the income of investors.

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.

Costs when purchased

100 shares @\$31.50	\$3,150
Plus commission	<u>28</u>
Total investment	<u>\$3,178</u>

Return when sold

100 shares @\$38	\$3,800
Minus commission	<u>42</u>
Total return	<u>\$3,842</u>

Transaction summary

Total return	\$3,842
Minus total investment	<u>3,178</u>
Profit from stock sale	\$664
Plus dividends	<u>160</u>
Total return from investment	<u>\$824</u>