

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

Answer Low earnings would show in the income statement, which will discourage investors to buy the stock and make the current stockholders to be willing to sell the stock. When the stockholders sell the shares, the price drops.

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

Answer Blue chip stocks, because it has stable growth and strong cash flow with a long history of consecutive quarterly dividends. Blue chip stocks also tend to stable even during the recession, so it is considered as a safe investment, and they are not only consistently pay dividends to their shareholders but increase paying dividends overtime. Thus, in the long run, the investors can benefit from the dividend payment and generate portfolio income which help us achieve our financial goals.

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

Answer

- 1) The financial section of the news
- 2) Stock advisory services
- 3) Corporate news
- 4) Annual report of the company
- 5) DEF 14A (or proxy statement)

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

Answer There are several differences between the primary and secondary market.

- 1) The primary market is the marketplace where investors and traders can buy new initial issued of securities directly from the company issuing them, while the secondary market is the marketplace where the investors and traders buying and selling the securities among themselves.
- 2) The price of securities in the primary market are fixed while the prices change in the secondary market depending on the demand and supply of the securities trade.
- 3) The primary market provides financing to new companies and to old companies for their expansion. On the contrary, the secondary market does not provide financing to companies, as they are not involved in the transaction.
- 4) The amount received from the securities are income of the company, but in the case of a secondary market, it is the income of the investors.

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.

Answer Tammy Jackson purchased 100 shares at \$31.50 per share, so she bought this stock for $100 \times \$31.50 = \$3,150$. However, she need to pay the commission fee for purchasing this stock equals to \$28, so the total cost of buying this stock is $\$3,150 + \$28 = \$3,178$.

After one year, she sold the stock for \$38 per share means that she obtained the money from selling of the stock equals to $100 \times \$38 = \$3,800$, but she need to pay \$42 of commission to the broker when she sold it, thus the total return after selling this stock would be $\$3,800 - \$42 = \$3,758$.

However, during the 12 months that she owned the stock, she received \$160 in dividends.

Therefore, the total return on this investment would be the capital gain + dividend = $(\$3,758 - \$3,178) + \$160 = \740 .