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

Earnings are the company's after-tax net income or profit which is the main determinant of its share price. Stock's market value is the price of an asset that tell how well company generate profit. High profits don't always lead to a high stock price and big losses don't necessarily mean a low stock price. But a higher earning will lead an investor to invest more in the stock because they see this stock in a positive way. So, if the demand for this stock increase, the stock price and stock's market value will rise accordingly. Meaning that earning and stock's market value are positively correlated.

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

My financial goal is to have some extra money apart from my fixed income for personal expense. So, I would invest in Income Stock because this type of stock usually pay high dividend. Even Though the growth rate tends to be low but there is a high possibility to gain some profit since I won't hold it for long maybe just for couple months.

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

I would use price per earning ratio to evaluate a stock since it can measures the stock's relative value whether it is overpriced or underpriced. The factor that drive P/E ratio up and down are the higher the firm's earning growth rate, the higher the firm's P/E ratio and the higher the investor's required rate of return, the lower the P/E ratio. Earnings per share is the level of earnings of each share of stock, not necessarily what will be paid as dividends. It used to compare financial performance of companies.

Earnings Per Share(EPS)

= (Net Income – Dividends on Preferred Stock) / Average Outstanding Per Shares

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

Primary market is the market where a initial company's security are sold to the public to fund operations or expand the business or we called this as "going public". They sell their securities to the public through an Initial Public Offering (IPO).

Secondary market is the market where investors purchase securities or assets from other investors. The value of a particular stock also varies from that of the face value which the price of the security will forces by demand and supply. Secondary markets consist of organized exchange and OTC where existing shares are traded.

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.

Purchased 100 shares @$31.50 = 100 x 31.50 = $3,150 with a $28 commission = ($3,150 + $28) = $3,178

Sold 100 shares @$38 a year later = 100 x 38 = $3,800 with a $42 commision = ($3,800 - $42) = $3,758

Total return ($3,758 - $3,178) + $160 = $740