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Assignment 5

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

Since my financial goal is receiving income from another uninterrupted resource, I'm interested in income stock because these stocks have steady streams of revenue that allow for a low risk and consistent source of revenue. And this stock is attractive because companies that pay dividends steadily over long periods of time usually are more stable during bear markets than other stocks.

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

Two of the major factors that influence stock price are current earnings and promise of future earnings. Earnings influence the price of the stock in how well a company performs against expectations. Before companies report their financial results, analysts predict the EPS based on many factors. If a company beats the projected earnings, its stock price will usually go up. But if a company fails to reach the projected earnings, its stock price will most likely decline. If a company loses money, but the losses are lower than projected, the stock price is likely to go up.

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

When a company publicly sells new stocks and bonds for the first time, it does so in the primary capital market but the secondary market is where securities are traded after the company has sold all the stocks and bonds offered on the primary market.

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.

Cost when purchased		Return from sold	
- 100 shares at $31.50	= 3150	- 100 shares at $38	= 3800
- plus commission	+ 28	- minus commission	- 42
- total investment	$3178	- total return	$3758

Transaction Summary	
- return	3178
- minus total investment	-3758
- plus dividends	160
- minus tax on dividend	-16
Total return	$724