

A Study of Fundamental and Technical Analysis In Financial Market

Dr. Anupam Bhatia¹, Ashok²

¹Assistant Professor, Department of Computer Science and Applications, Chaudhary Ranbir Singh University, Jind, Haryana, India

²Research Scholar, Department of Computer Science and Applications, Chaudhary Ranbir Singh University, Jind, Haryana, India

ABSTRACT

There are many stocks available in the market for purchase. The process for selecting stocks for making decision is a complex task. Moreover, there are two main decision making tools used widely. One is fundamental analysis and other is technical analysis. This paper discusses about these analysis in details and also the factors affecting them. By considering all the associated factors, better analysis can be done and hence better prediction.

Keywords : Budget, Repo rate, Ratio, Support, Confidence.

I. INTRODUCTION

Both fundamental and technical analyses are used for future prediction of stocks but takes different data into consideration for analysis [2]. For performing analysis, fundamental analysis focuses on a company's financial, management, economic policies. On the other hand, technical analysis is the study of historical market data including price and volume [1]. Technical analysis aims to use past performance to predict future market behavior by using behavioral economics and quantitative analysis. Technical analysis focuses on past price chart patterns and predict future price of stock.

II. FUNDAMENTAL ANALYSIS

Fundamental analyst analyses the stock based on the specific goals of the investors. They study the financial strength of corporate, growth of sale, earning and profitability. The fundamental analysts estimate the intrinsic value of shares and purchase

them when they are undervalued. They dispose the shares when they are overpriced and earn profits. They try to find out the long term value of shares.

The price of the share is directly affected by earning of the company, the growth rate and the risk exposure of the company. As shown in figure 1, the fundamental school of thought appraised the intrinsic value of shares through [2]:

1. Economic Analysis
2. Industry Analysis
3. Company Analysis



Figure 1 : Categorization of Fundamental Analysis

Moreover, economic analysis can be performed by keeping various factors in mind which are shown in figure 2. Here, GDP can be calculated as the total value of output of goods and services produced in a given period of the time within an economy.

Economic forecasting is done with the help of various indicators for examples economics significance, statistical adequacy, timing, conformity.

Moreover, while considering economic analysis, GST impact, a strong rupee and price movement will also be taken into consideration. Two policies are discussed in economic analysis. One is monetary and other is fiscal. Monetary policy take into account repo rate, reverse repo rate, bank rates etc. which are controlled by Reserve Bank of India. On the other hand, fiscal policy deals with economic growth, inflation control and social stability which are controlled by Govt. of India. Economic analysis deals with both domestic and global economy.

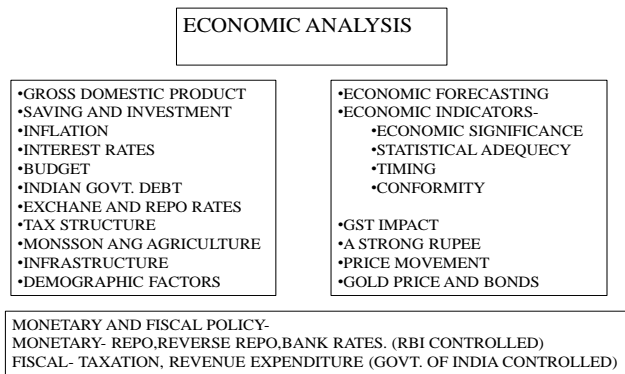


Figure 2 : Economic Analysis

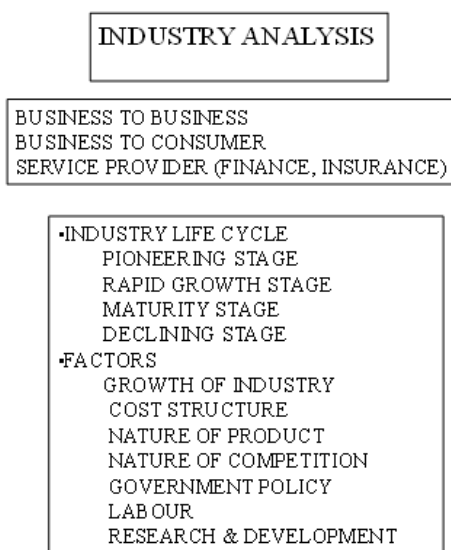


Figure 3 : Industry Analysis

Industry analysis discusses the industry life cycle which has four stages which are pioneering stage, rapid growth stage, maturity stage, declining stage. There are various categories such as growth industry, cyclical industry, defensive industry, cyclical growth industry. Moreover, there are various factors to be considered while performing industry analysis. The factors are shown in figure 3 such as growth of the industry, cost structure and the profitability, nature of product nature of competition, government policy, labor, research and development etc.

Company analysis deals with various factors like competitive edge, earnings, capital structure, management, operating efficiency and financial performance. Moreover, in this analysis, the share value depends upon historic price of stock, price to earnings ratio and various economic conditions as shown in detail in figure 4.

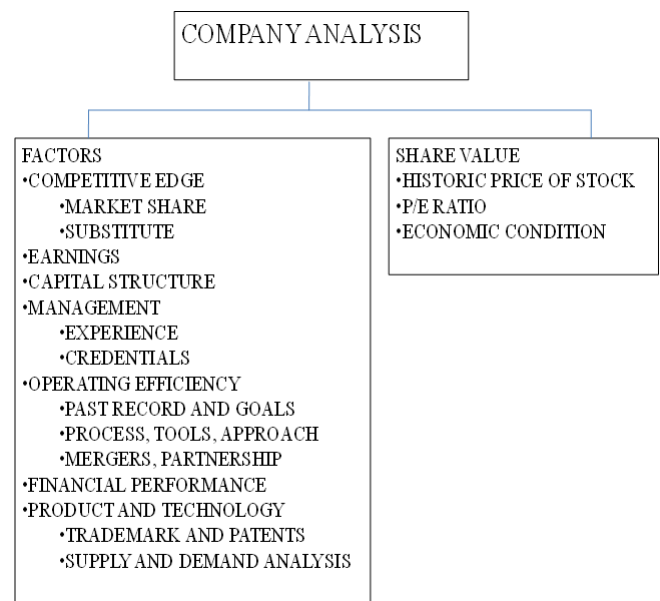


Figure 4 : Company Analysis

The best source of financial information about a company is its own financial statements. This is a primary source of information for evaluating the investment prospects in the particular company's stock.

Financial Analysis deals with all other financial factors like balance sheets, cash flow statements and income statements [3]. The statement gives the historical and current information about the company's operations. The current information aids to analyze the present status of the company. Ratio analysis is also performed under financial analysis. There are many ratio available like liquidity, turnover, leverage, profit margin, return on investment ratio, debt/ equity ratio, valuation ratio, price/sale ratio, price earnings ratio.

Moreover, the valuation ratio deals with dividend to market price, earning per share, return on assets and return on equity as shown in figure 5.

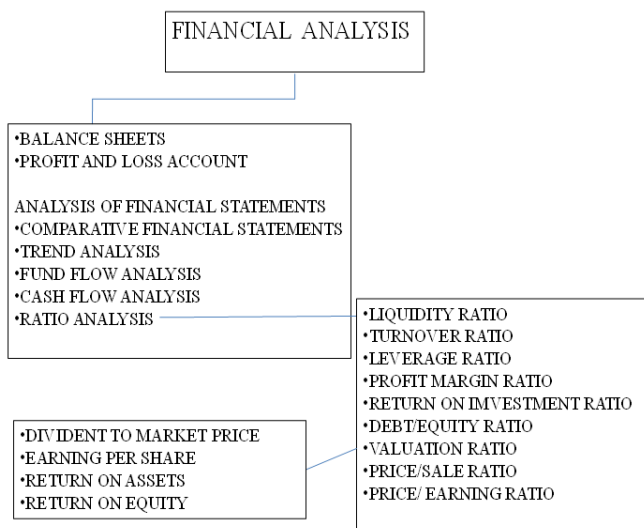


Figure 5 : Financial Analysis

III. TECHNICAL ANALYSIS

It is the process of identifying trends at an earlier stage to formulate the buying and selling strategies. With the help of several indicators, analyst analyzes the relationship between price-volume and supply-demand for the overall market and the individual stock.

Two most common forms of technical analysis are charts and statistical indicators like moving average

etc. i.e. Sensex movement compared to the moving average line [5]. Moreover, in order to see if an asset is over sold or over bought, relative strength index compares the magnitude of recent gains to recent losses. Also, support and resistance should be considered an important factor as a support is plotted at the daily low price and resistance at the daily high price.

Also, various models are there like ARMA model, ARCH, GARCH, EGARCH etc which are auto regressive models which predict future behavior based on past behavior. These models are used for forecasting when there is some correlation found between values in a time series & the values that precede and succeed it.

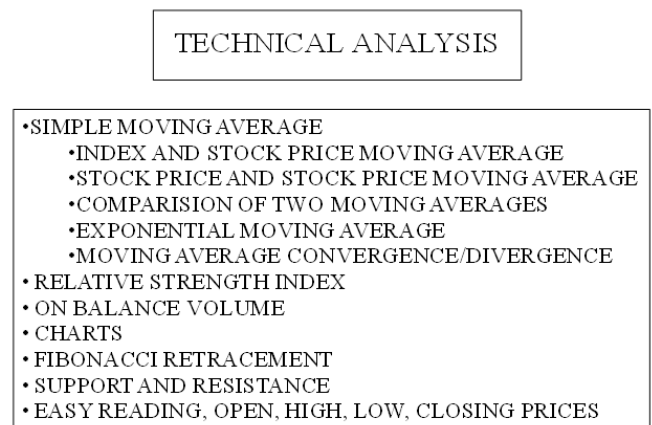


Figure 6 : Technical Analysis

Also there are some other factors which directly or indirectly affect the stock market [4], which are as follows:

- Natural Disaster/Weather
- General Elections
- Global Issues
- Political Stability

IV. CONCLUSION

Both fundamental and technical analysis has been used as the primary decision making tools. Some investors use fundamental analysis tools and some use

technical analysis tools for depth analysis. This paper discusses various factors responsible for economic, industry and company analysis. Along with technical analysis, value of technical analysis is also stated in the paper. By considering all the factors and implementing best analysis tools will help in best decision making. This paper helps naïve investors to employ right decision making tool in Indian stock market.

V. REFERENCES

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