

Technical and Fundamental Analysis Review Paper

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ABSTRACT

This is a humble attempt to conduct literature review on Fundamental and Technical Analysis. Fundamental analysis is used in stock selection for equity portfolio management. To find out the intrinsic value on the basis of fundamentals and compares value with the current market price to determine if the security is underpriced or overpriced fundamental analysis is done. Technical analysis, which comes in the form of different charts so also known as “charting,” has been a part of financial studies for many decades. Initially Technical analysis has not received the same level of acceptance as fundamental analysis. One of the greatest challenge between academic finance and industry practice is the separation that exists between technical analysts and their academic critics. Investors would like to categorize the stocks into value and growth. Value investors invest for the stocks that are trading at less than their apparent worth, but on the other hand growth investors focus on the future potential of the firm and buy companies that are trading higher than their current intrinsic worth with the belief that the companies’ intrinsic worth will grow and go beyond their current valuation.

Keywords: Stocks, Fundamental Analysis, Technical Analysis.

Introduction

The Indian economy has seen tremendous change through a phase of economic evolution since 1991. The Indian capital market has positive impact due to the policy of Economic liberalisation. The Indian stock market consists of 23 stock exchanges including two exchanges set up in the reforms era i.e. National Stock Exchange of India (NSE) and Over The Counter Exchange of India (OTCEI). Securities under stock market are analysed through Fundamental and technical analysis. Fundamental analysis is done in order to know the fundamental value of the firm, which otherwise is not reflected in their market price. Investors widely choose the stocks into value and growth. The technical analysis (TA) approach to capital market evaluation has received little attention and reception as compared to fundamental analysis (FA). Recently the popularity of technical school of thought is increasing. A brief review of literature is given below for studies abroad and studies for the Indian market.

Objectives of Study

1. To understand concept of Fundamental and technical analysis.
2. To analyse literature on Fundamental and Technical analysis.

Fundamental Analysis

Fundamental analysis is the test of the crucial forces that affect the welfare of the economy, corporates and different sectors. To forecast future stock prices, fundamental analysis combines economic, industry, and company analysis to obtain a stock's fair value called intrinsic value. An investor who would like to be balanced and scientific in his investment decision has to evaluate a lot of data about the past performance and the expected future performance of companies, industries and the economy as a whole before taking investment decision. Each share is assumed to have an economic worth based on its present and potential earning capacity.

Technical Analysis

In Capital market, technical analysis is a security analysis discipline for projecting the direction of prices through the study of past market data, primarily price and volume. Technical Analysis defined as an art and science of projecting future prices based on an assessment of the past price movements. Technical analysis is not astrology for predicting prices. Technical analysis is based on analyzing existing demand-supply of commodities, stocks, indices, futures or any tradable instrument. The time frame for technical analysis is different like daily, weekly or monthly. Technical analysts also extensively make use of market indicators of many types, some of which are arithmetical transformations of price, often including up and down volume, advance/decline data and other inputs. Indicators are used to help assess whether an asset is trending, and if it is, its possibility of its direction and of continuation. Experts also look for relationships between price/volume index and market indicators. Examples include the relative strength index, and MACD (Moving Average Convergence Divergence).

Review of Literature

(JEVONSLEE, 1987) done fundamental analysis of securities. The fundamental analysis approach assumes that each security has an intrinsic value that can be decided on the basis of such information like accounting earnings, dividends, growth factors, and debt/equity ratios etc.. Technical expert determines the intrinsic value on the basis of these fundamentals and compares this value with the current market price to determine if the security is underpriced or overpriced. (Preeti, 2009) examines whether fundamental analysis involving two types of approaches like traditional and growth. Fundamentally powerful firms earn excess mean returns in comparison to fundamentally weak firms. It helps in differentiating between the overvalued firms and firms with growth potential. (Mishra, 2016) stated the extent to which trading profitability using technical analysis indicators explains the 'risk premium' or 'risk compensation' for investing in equity markets as against assets that are relatively risk-free using multiple regression analysis. It is advised that traders, retail investors and fund managers, while evaluating portfolios, can rely on technical indicators-based trading strategies other than fundamental analysis. (Pandya, 2013) conducted study for Information Technology sector companies and technical analysis is done for them. He carried out detail research for Technical Analysis of the securities of the selected companies from the Information Technology sector and to

assist portfolio decisions in this sector, since Information Technology sector is one of the most upcoming and booming sectors in the Indian Market.

It has proven to be one of the most important and fastest growing sectors of the Indian Economy. (Boobalan, 2014) carried out Technical Analysis of the securities of the selected companies from Industry and to assist investment decisions in the Indian Market. Technical analysis through this study does not result in absolute predictions about the future with regard to forecasting. (Roy, 2015) done Fundamental analysis and stated that one should examine the economic environment, industry performance and company performance before making an investment decision. One of the livelier and long-lasting debates in securities research is the relative merits of fundamental research and technical research. (Mutswenje, 2014) tested the tenets of the behavioral finance theory on the factors that influence investment decisions under conditions of uncertainty. (Venkatesh, 2011) reports the results of a questionnaire survey in June/July 2010 on the use of Fundamental and Technical analysis by brokers/fund managers in Indian stock market to form their forecasts of share price movements. Fundamental analysis is method of finding out the future price of a stock which an investor desires to buy. It relates to the examination of the intrinsic worth of a company to find out whether the current market price is fair or not, whether it is overpriced or under-priced. (Peachavanish, 2016) proposes a method using cluster analysis to identify a group of stocks that has the best trend and momentum characteristics at a given time, and therefore are most likely to outperform the market during a short time period.

(Bhupesh, 2013) proposes a method for stock picking and finding access point of investment in stocks using a hybrid method consisting of self-organizing maps and selected technical indicators. (Hon-Snir, 2011) Studied that investors use financial statements and support and resistance lines together as a primary tool for their investment behavior. For many years investors used various tools to support their buying and selling stocks decisions. Two sets of tools are commonly used by investors: fundamental and technical analysis. (Veronika Čaljkušić, 2011) Studied the right approach to the evaluation of stock and predicting the moment in which investors should take action by using different approaches and methods during a certain period of time.

Conclusion

The important feature of capital market instruments forces investors to depend strongly on fundamental factors in their investment decisions. Fundamental research focuses on finding and analyzing the factors that influence security prices whereas technical analysis is exclusively alarmed with analyzing market behavior. Given the quick differences, it is easy to understand why proponents tend to favor one over the other. In current scenario, if the investors are mainly depends on fundamental analysis, broker's advice, newspaper articles or business channels for investing/ trading decisions, at which investor get painful experience in the stock market. Then it will not give correct decision. So Technical analysis is also needful. It is all about learning the Art of Making Profits in all market situations whether going up or declining Knowledge of the stock

markets is key ingredient to the success and emphasis should be on managing trading risk while technical analysis can help the investors to control. There is only one side to the stock market and it is not the bull side or bear side but the right-side technical analysis can be used, when to buy and when to sell the scrip.

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