



## Fundamental v/s Technical Analysis of Stocks

The Indian stock markets have witnessed unexpected price movements in the past few years. After the end of a week performing 2011, the beginning of the year 2012 has been quite positive for the market. The Indian shares posted their best gains in January since 1994, as the flow of funds from the FIIs showed signs of revival for the Indian capital market. The Sensex rose by 11.3 percent in January 2012, as compared to 19.4 percent in 1994.

For an investor, the ultimate goal for making investment in the stock markets is "Return". The concept of earning returns is subjective; some might look for a long term and some for short term.

Most investors want to earn a stable rate of return, and thereby, plan their investments which provide benefits in the long-term. However, quite often, they are unable to stick to one plan, and end up taking decision which is not supported by a technical or fundamental analysis. Therefore, it becomes very important for an investor to undertake a thorough analysis, both technical and fundamental, before making an investment. These techniques enable them to earn the desired rate of return with minimal risk.

### Technical analysis:

Technical analysis is the study of a stock, or the market as a whole, by using the price and volume history of a stock. Technical analysis uses little or no information about the actual business behind the stock. The common belief is that a stock price represents all known information about a stock.

A technical analysis includes study of charts, analysis of trends of support and resistance, volume, moving average. The major technical tools which are used by technical analysts are price bars, volume bars, moving average and various patterns.

Charts play a vital role during technical analysis and provide the main source of information for decision making. The charts can be classified into:

- Line chart;
- Bar chart;
- Candlestick chart; and
- Points and figure chart.

There are 3 basic assumptions while making technical analysis:

1. Price and volume action.
2. Price moves in pattern.
3. History tends to repeat itself.

### Fundamental analysis:

Fundamental analysis begins by evaluation of the financial statements. By looking at the balance sheet, cash flow statement and income statement, a fundamental analyst tries to determine a company's value (in financial terms, an analyst attempts to measure a company's intrinsic value). In this approach, investment decisions are fairly easy to make - if the price of a stock trades below its intrinsic value, it's a good investment.

Fundamental analysis serves to answer questions in relation to the performance of the company. We have listed some of these questions below:



- Are the revenues of the company growing over the years?
- Does the operation of the company enable it to earn the desired rate of return for its investors?
- Is it in a strong-enough position to beat out its competitors in the future?
- Is it able to repay its debts?
- Is management trying to cook the books?

Further, one has to look into following points before making investment in a company.

1. An investor should be aware where he is letting its money flow. He should be aware about the company – the management and its background, the history of the company, the present activities undertaken by the company and its future prospects.
2. Does the company follow corporate governance and code of conduct?
3. “What is the value of company?” The word “Value” as a term is not restricted to money value or market value; it also includes its goodwill and the ability of the company to sustain in tough times against the peer companies.

**As Warren Buffett s says “buy businesses, not stocks, businesses I would be willing to own forever”.**

#### **Conclusion:**

Although technical analysis and fundamental analysis are seen by many as polar opposites - the oil and water of investing - many market participants have experienced great success by combining the two. For example, some fundamental analysts use technical techniques to figure out the best time to enter into an undervalued security. Often times, this situation occurs when the security is severely oversold. By timing entry into a security, the gains on the investment can be greatly improved.

Alternatively, some technical traders might look at fundamentals to add strength to a technical signal. Oftentimes, having both the fundamental and technical analysis on your side can provide the best-case scenario for a trade.

While mixing some of the components of technical analysis is not well received by the most devoted groups in each school, there are certainly benefits to at least understanding both schools of thought.