

# Investment Evaluation Through Selected Commodity Market Substance



## Finance

**KEYWORDS :** Investment, Risk, Portfolio, Commodity

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### ABSTRACT

*The investor takes a number of decisions in the process of investment. The investor has to decide about his risk tolerance level and the nature of assets to be bought whether they are stocks or bonds or real estate's or commodity market. Once he decides the nature of the asset, he has to select it from the different alternatives. For example, if the common stock / commodity substance is chosen by the investor he has to decide which company's stock / commodity substance he has to buy. Ultimately this process would enhance the investment knowledge on different investment avenue. Through this process an investor can be an expertise in the field of portfolio construction.*

### INTRODUCTION

Futures are contracts to buy specific quantity of a particular commodity at a future date. It is similar to the Index futures and Stock futures but the underlying happens to be commodities instead of Stocks and Indices. Commodities are considered “real assets,” as opposed to financial assets like stocks and bonds. They are backed by real goods rather than an estimated worth. Commodity futures are sold on a forward basis, meaning that investors purchase the asset at a set price before the asset is produced. This can benefit the producer by giving it money upfront, and it helps the investor if the price of the asset remains high.

Commodities are typically bought by large institutions that have the ability to handle and resell them. Smaller investors usually purchase commodity equities, which are like shares of stock but are backed by the real asset of the commodity.

### OBJECTIVES OF THE STUDY

1. To study and to understand the impact of technical tools in commodity market.
2. To study investment opportunities in commodity market.

### RESEARCH METHODOLOGY

Since this paper is analytical in nature, authorized secondary source information were used.

#### 1. SOURCE OF DATA:

The data was collected from National Stock Exchange website.

#### 2. TOOL USED FOR THE STUDY:

##### Fibonacci retracement

Fibonacci numbers are the result of work by Leonardo Fibonacci in the early 1200's while studying the Great Pyramid of Gizeh. The fibonacci series is a numerical sequence comprised of adding the previous numbers together, i.e., (1,2,3,5,8,13,21,34,55,89,144,233 etc..) An interesting property of these numbers is that as the series proceeds, any given number is 1.618 times the preceding number and 0.618% of the next number.  $(34/55 = 55/89 = 144/233 = 0.618)$   $(55/34 = 89/55 = 233/144 = 1.618)$ , and  $1.618 = 1/0.618$ .

This properties of the fibonacci series occur throughout nature, science and math and the number 0.618 is often referred to as the “golden ratio” as it is the root of the following polynomial  $x^2+x-1=0$  which can be rearranged to  $x = 1/(1+x)$ . So that's where the fib # 0.618 comes from. The other fibs 0.382 and 0.5 commonly used in technical analysis have a less impressive background but are just as powerful in Technical analysis.  $0.382 = (1-0.618) = (0.618 * 0.618)$  and 0.5 is the mean of the two numbers.

Other neat fib facts  $(0.618 * (1+0.618) = 1)$  and  $(0.382 * (1+0.618)) = 0.618$ .

Retracements usually imply that the prior trend will continue, 61.8% retracements imply a new trend is establishing itself. A 50% retracement implies indecision. 38.2% retracements are considered natural retracements in a healthy trend.

#### 3. PERIOD OF ANALYSIS:

The investment evaluation on commodity market substance based on the real time data taken from Multi-Commodity Exchange of India Ltd, Mumbai (MCX), during the period 1.04.2012 to 31.03.2013

#### 4. SAMPLE SIZE:

The commodities taken for research design are Gold and Silver.

#### 5. STATEMENT OF PROBLEM

The study is about analyzing the portfolio of different commodities involved in commodities market both globally and nationally. The statement of the problem is that to analyze the aspects involved in the market where the investors are not been aware about the concepts of portfolio involved in the market.

#### 6. SCOPE OF THE STUDY

The study is conducted in a way to calculate the risk and return of commodity market for past one year. This will help the investors viz, individuals and the clients of the company to yield them higher return with lesser risk.

### ANALYSIS AND INTERPRETATION

#### FIBONACCI RETRACEMENT - GOLD

UP TREND			RETRACEMENTS		TARGET
			23.60%	31284.47	31874.24
Week Date:-	26/02/2013		38.20%	30554.76	30919.62
	HIGH	32464.00	50.00%	29965.00	30259.88
	NET UP : 4998		61.80%	29375.24	29670.12
	LOW		27466.00	28645.53	29010.38

#### INTERPRETATION

The above table shows the buying level for Gold Fibonacci for the past one year as the market went from low to high. The trade is been initiated at four five levels of Fibonacci. The first buy is been initiated at 31284.47 and the target is at 31874.24 but the target didn't get achieved so will be averaging the lot at 38.2% level at 30544.76 and the targets for both the level is at 30919.62, the third level of buying is at 29965 at 50% level and the target got achieved at 30259.88 and the final level of buying is at 61.8% level at 28645.53 and the target is at 29010.38.

**FIBONACCI RETRACEMENT-SILVER**

UP TREND			RETRACEMENTS		TARGET
			23.60%	62293.52	64006.76
Week Date:-	13/03/2013		38.20%	60173.74	61233.63
	HIGH	65720.00	50.00%	58460.50	59317.12
	NET UP : 14519.00		61.80%	56747.26	57603.88
	LOW: 51201.00		76.40%	54627.48	55687.37

**INTERPRETATION**

The above table shows the buying level for Silver Fibonacci for the past one year as the market went from low to high. The trade is been initiated at all the five levels of Fibonacci. The first buy is been initiated at 62293.52 and the target is at 64006.76 and the target get achieved at this level, the second buying is at 38.2% level at 60173.74 and the target is at 61233.63 but the target didn't get achieved at this level, the third level of buying is at 58460 at 50% level and the target for both the levels got achieved at 59317.12 and the fourth level of buying is at 61.8% level at 56747.26 and the target is at 57603.88 but the target didn't get achieved at this level and the next level of buying is at 76.4% level at 54627.48 and the target for both the levels get achieved at 55687.37.

**FINDINGS**

1. In Gold the first buy is been initiated at 31284.47 and the target is at 31874.24 but the target didn't get achieved so will be averaging the lot at 38.2% level at 30544.76 and the targets for both the level is at 30919.62, the third level of buying is at 29965 at 50% level and the target got achieved at 30259.88 and the final level of buying is at 61.8% level at 28645.53 and the target is at 29010.38 and the total profit is 20.89%

2. In Silver the first buy is been initiated at 62293.52 and the target is at 64006.76 and the target get achieved at this level, the second buying is at 38.2% level at 60173.74 and the target is at 61233.63 but the target didn't get achieved at this level, the third level of buying is at 58460 at 50% level and the target for both the levels got achieved at 59317.12 and the fourth level of buying is at 61.8% level at 56747.26 and the target is at 57603.88 but the target didn't get achieved at this level and the next level of buying is at 76.4% level at 54627.48 and the target for both the levels get achieved at 55687.37 and the total profit is 21.78%

**SUGGESTIONS**

Fibonacci retracement for gold is 20.89% and with a total of 129.24 and for silver 21.78% and with a total of 143.69. As per Fibonacci retracement it would advisable to make investment in Silver rather than Gold.

Commodity markets are markets where raw or primary products are exchanged. These raw commodities are traded on regulated commodities exchanges, in which they are bought and sold in standardized contracts. Portfolio is none other than Basket of Stocks. Portfolio Management is the professional management of various securities and assets in order to meet specified investment goals for the benefit of the investors.

The study is about analyzing the financial techniques for providing the priority of portfolio for the commodities in MCX market. The market was more volatile for the past one year and had given more profit and loss according to our tools.

The conclusion is that the portfolio construction in commodity market has more risk but has given a reasonable profit in the last year. And MACD tool can prescribe to the customers for the better of profit which leads to a good volume for the company.

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