Research Paper Finance

A Study on Technical Analysis of Canara Bank Equity Share

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ABSTRACT

The study is connected with "A study on technical analysis of equity share of Canara Bank with a view to analyze and understand the equity share of the Canara Bank. The study is fully based on the secondary data which have been collected from the company reports and websites. Today, Canara Bank occupies a premier position in the comity of Indian banks.
The objective of the study is to analyze the price movement of share, to compare the stock price movements with the market and to discover the trend in the future. The data were analyzed with the help of Simple moving average, Exponential moving average, and Relative Strength Index, which gives valid results about the share prices of the company. Trend analysis is also used to spot out the percentage change in the market price.

Keywords : Technical analysis, Simple Moving Average, Exponential, Moving Average and Relative Strength Index

INTRODUCTION

The methods used to analyze securities and make investment decisions fall into two very broad categories: fundamental analysis and technical analysis. Fundamental analysis involves analyzing the characteristics of a company in order to estimate its value. Technical analysis takes a completely different approach; it doesn't care one bit about the 'value" of a company or a commodity. Technicians (sometimes called chartists) are only interested in the price movements in the market. Despite all the fancy and exotic tools it employs, technical analysis really just studies supply and demand in a market in an attempt to determine what direction, or trend, will continue in the future. In other words, technical analysis attempts to understand the emotions in the market by studying the market itself, as opposed to its components. If you understand the benefits and limitations of technical analysis, it can give you a new set or skills that will enable you to be a better trader or investor. In this tutorial, we'll introduce you to the subject of technical analysis. It's a broad topic, so we'll just cover the basics, providing you with the foundation you'll need to understand more advanced concepts down the road.

Technical analysis is a method of evaluating securities by analyzing the statistics generalized by market activity, such as past prices and volume. Just as there are many investment styles on the fundamental side, there are also many different types of technical traders. Some rely on chart patterns; others use technical indicators and oscillators, and most use some combination of the two. In any case, technical analyst's exclusive use of historical price and volume data is what separates them from their fundamental counterparts. Unlike fundamental analysis, technical analysts don't care whether a stock is undervalued – the only thing that matters is a security's past trading data and what information this data can provide about where the society might move in the future.

The field of technical analysis is based on three assumptions:

- The market discounts everything.
- Price moves in trends.
- History tends to repeat itself.

OBJECTIVES OF THE STUDY

- To analyze the price movements of shares of Canara Bank and interpret the Corrections and trends by using Technical Analysis tools.
- To forecast the future trends and provide suitable suggestions to the investors.
- To identify the inherent technical strength and weakness of the equity share.

SCOPE OF THE STUDY

- The study covers for a period of 2.5 months from January 2013 to March 2013.
- The study helps to find out the future trends in the prices of Canara Bank equity share.

Valuable hints can be identified by the investors for their future buying and selling.

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. The various steps that are generally adopted by a researcher in studying research problem along with the logic behind them. It is necessary for the researcher to know not only the research methods/ techniques but also the methodology.

ANALYTICAL RESEARCH

Research Design was based on analytical research, on the other hand, the researcher has to use facts or information already available, and analyze these to make these to make a critical evaluation of the material.

SOURCES OF DATA

The main sources of data are collected through website, various publication books, magazines, newspaper and reports prepared by research scholars etc.

METHOD OF DATA COLLECTION

SECONDARY DATA

The study is purely based on secondary data. The secondary data are those which have already been collected by some-

one else and which have already been passed through the statistical process. The methods of collecting secondary data are published data or unpublished data. It takes short time and relatively low cost.

STATISTICAL TOOLS APPLIED

The analysis of data is carried out for secondary data by the following method.

- Simple Moving Average.
- Exponential Moving Average.
- Relative Strength Index.

REVIEW OF LITERATURE

According to Achelis "Technical analysis is the process of analyzing a security's historical prices in an effort to determine probable future prices."

According to Edwards, Magee and Bassetti "It refers to the study of the action of the market itself as opposed to the study of the goods in which the market deals. Technical Analysis is the science of recording, usually in graphic form, the actual history of trading (price changes, volume of transactions, etc.) in a certain stock or in "the Averages" and then deducing from that pictured history the probable future trend."

According to Murphy "Technical analysis is the study of market action, primarily through the use of charts, for the purpose of forecasting future price trends. The term "market action" includes the three principal sources of information available to the technician—price, volume, and open interest."

According to Pring "The art of technical analysis, for it is an art, is to identify a trend reversal at a relatively early stage and ride on that trend until the weight of the evidence shows or proves that the trend has reversed. [...] Therefore, technical analysis is based on the assumption that people will continue to make the same mistakes they have made in the past."

According to "Cory Janssen, Chad "Langager" and Casey Murphy" Technical analysis is a method of evaluating securities by analyzing the statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity.

ANALYSIS AND INTERPRETATION

SIMPLE MOVING AVERAGE (SMA)

A simple moving average is formed by computing the average (mean) price of a specified number of periods. While it is possible to create moving averages from the open, the high, and the low data points, most moving averages are created using the closing price.

FORMULA TO CALCULATE SMA

SMA = (Total closing prices/ No. of. Days)

For example: a 10-day simple moving average is calculated by adding the closing prices for the last 10 days and dividing the total by 10.

10+10+10+10+10+10+10+10+10+10=100
(100/10) = 10

TABLE 1
CALCULATION OF SIMPLE MOVING AVERAGE OF CANARA BANK FROM 1ST JANUARY 2013 TO 13TH MARCH 2013 (50 DAYS)

DATE	CLOSE PRICE	10 DAY'S SMA	DATE	CLOSE PRICE	10 DAY'S SMA
1-Jan-13	515.15	-	7-Feb-13	460.15	471.07
2-Jan-13	522.1	-	8-Feb-13	445.7	466.005
3-Jan-13	523.15	-	11-Feb-13	446.4	462.39
4-Jan-13	526.2	-	12-Feb-13	448.5	459.7
7-Jan-13	520.85	-	13-Feb-13	439.55	456.92
8-Jan-13	513.85	-	14-Feb-13	433.85	452.195
9-Jan-13	511.1	-	15-Feb-13	437.7	448.76
10-Jan-13	506.25	-	18-Feb-13	455.45	448.68
11-Jan-13	503.3	-	19-Feb-13	457.45	449.165
14-Jan-13	517.75	515.97	20-Feb-13	451.3	447.605
15-Jan-13	523.05	516.76	21-Feb-13	438.95	445.485
16-Jan-13	508.9	515.44	22-Feb-13	441.95	445.11
17-Jan-13	515.05	514.63	25-Feb-13	433.75	443.845
18-Jan-13	521.05	514.115	26-Feb-13	427.35	441.73
21-Jan-13	521.1	514.14	27-Feb-13	434.65	441.24
22-Jan-13	504.6	513.215	28-Feb-13	416.05	439.46
23-Jan-13	496.35	511.74	1-Mar-13	419.65	437.655
28-Jan-13	482.55	509.37	4-Mar-13	417	433.81
29-Jan-13	475.4	506.58	5-Mar-13	420.9	430.155
30-Jan-13	467.35	501.54	6-Mar-13	425.65	427.59
31-Jan-13	481.1	497.345	7-Mar-13	433.8	427.075
1-Feb-13	472.05	493.66	8-Mar-13	432.2	426.1
4-Feb-13	456.25	487.78	11-Mar-13	436.4	426.365
5-Feb-13	452.6	480.935	12-Mar-13	431.45	426.775
6-Feb-13	466.9	475.515	13-Mar-13	420.9	425.4

INTERPRETATION On 14th January'13 the simple moving average was 515.97 then it has moved down to 497.345 on 31st January'13 and it has further decreased to 425.4 on 13th March 2013. From the above simple moving average for the period 1st January'13 to 13th March'13 there was fluctuations and fall in price trends

EXPONENTIAL MOVING AVERAGE (EMA)

The shorter the EMA's period, the more weight that will be applied to the most recent price. For example: a 10- period exponential moving average weighs the most recent price 18.18% while a 20-period EMA weighs the most recent price 9.52%. As we'll see, the calculating and EMA is that the exponential moving average puts more weight on recent prices. As such, it will react quicker to recent price changes than a simple moving average.

Exponential Moving Average Calculation

Exponential Moving Averages can be specified in two ways – as a percent – based EMA or as a period – based EMA. A percent – based EMA has a percentage as its single parameter while a period – based EMA has a parameter that represents the duration of the EMA.

FORMULA FOR AN EXPONENTIAL MOVING AVERAGE IS

EMA (current) = ((Price (current) – EMA (prev)) * Multiplier) +EMA (prev) For a percentage – based EMA, "Multiplier" is equal to the EMA'S specified percentage. For a period – based EMA, "Multiplier" is equal to 2/ (1 + N) Where N is the specified number of period.

For example, a 10- period EMA's Multiplier is calculated like this:

(2/ (Time periods + 1)) = (2/ (10+1)) = 0.1818

TABLE NO: 2
CALCULATION OF EXPONENTIAL MOVING AVERAGE FROM 1ST JANUARY 2013 TO 13TH MARCH 2013 (50 DAYS)

DATE	CLOSE PRICE	10 DAY'S EMA	DATE	CLOSE PRICE	10 DAY'S EMA
1-Jan-13	515.15	515.15	7-Feb-13	460.15	465.685
2-Jan-13	522.1	516.401	8-Feb-13	445.7	457.549
3-Jan-13	523.15	522.289	11-Feb-13	446.4	445.826

4-Jan-13	526.2	523.699	12-Feb-13	448.5	446.778
7-Jan-13	520.85	525.237	13-Feb-13	439.55	446.889
8-Jan-13	513.85	519.59	14-Feb-13	433.85	438.524
9-Jan-13	511.1	513.355	15-Feb-13	437.7	434.543
10-Jan-13	506.25	510.227	18-Feb-13	455.45	440.895
11-Jan-13	503.3	505.719	19-Feb-13	457.45	455.81
14-Jan-13	517.75	505.901	20-Feb-13	451.3	456.343
15-Jan-13	523.05	518.704	21-Feb-13	438.95	449.077
16-Jan-13	508.9	520.503	22-Feb-13	441.95	439.49
17-Jan-13	515.05	510.007	25-Feb-13	433.75	440.474
18-Jan-13	521.05	516.13	26-Feb-13	427.35	432.598
21-Jan-13	521.1	521.059	27-Feb-13	434.65	428.664
22-Jan-13	504.6	518.13	28-Feb-13	416.05	431.302
23-Jan-13	496.35	503.115	1-Mar-13	419.65	416.698
28-Jan-13	482.55	493.866	4-Mar-13	417	419.173
29-Jan-13	475.4	481.263	5-Mar-13	420.9	417.702
30-Jan-13	467.35	473.951	6-Mar-13	425.65	421.755
31-Jan-13	481.1	469.825	7-Mar-13	433.8	427.117
1-Feb-13	472.05	479.471	8-Mar-13	432.2	433.512
4-Feb-13	456.25	469.206	11-Mar-13	436.4	432.956
5-Feb-13	452.6	455.593	12-Mar-13	431.45	435.509
6-Feb-13	466.9	455.174	13-Mar-13	420.9	429.551

INTERPRETATION

On 1st January'13 the Exponential Moving Average was 515.15 then it has reduced to 479.471 on 1st Febraury'13 and further decrease on next day at 469.206, then it was reduced to 429.551on 13th March'13. From the above Exponential Moving Average for the period 1st January'13 to 13th March'13 there was fluctuations and fall in price trends.

RELATIVE STRENGTH INDEX

The Relative Strength Index Technical Indicator (RSI) is a price – following oscillator that ranges 0 and 100. When Wilder introduced the Relative Strength Index, he recommended using a 14-day RSI.Since then, the 9 – day and 25 – day Relative Strength Index indicators have also gained popularity.

A popular method of analyzing the RSI is to look for a divergence in which the security is making a new high, but the RSI is falling to surpass its previous high. This divergence is an indication of an impending reversal. When the Relative Strength Index then turns down and falls below its most recent trough, it was said to have completed a "failure swing". The failure swing is considered a confirmation of the impending reversal.

TABLE NO: 3
CALCULATION OF RSI OF CANARA BANK FROM 1ST JANUARY 2013 TO 13TH MARCH 2013 (50 DAYS)

DATE	CLOSING PRICE	14-DAY RSI
1-Jan-13	515.15	-
2-Jan-13	522.1	-
3-Jan-13	523.15	-
4-Jan-13	526.2	-
7-Jan-13	520.85	-
8-Jan-13	513.85	-
9-Jan-13	511.1	-
10-Jan-13	506.25	-
11-Jan-13	503.3	-
14-Jan-13	517.75	-
15-Jan-13	523.05	-
16-Jan-13	508.9	-
17-Jan-13	515.05	-
18-Jan-13	521.05	-
21-Jan-13	521.1	53.71643
22-Jan-13	504.6	44.53651
23-Jan-13	496.35	36.84211
28-Jan-13	482.55	31.64557
29-Jan-13	475.4	29.21811
30-Jan-13	467.35	28.94022
31-Jan-13	481.1	37.64415
1-Feb-13	472.05	36.38535
4-Feb-13	456.25	33.00831
5-Feb-13	452.6	32.16045
6-Feb-13	466.9	32.08876
7-Feb-13	460.15	31.1412
8-Feb-13	445.7	28.00974
11-Feb-13	446.4	25.17179
12-Feb-13	448.5	22.99963
13-Feb-13	439.55	24.33925
14-Feb-13	433.85	24.83897
15-Feb-13	437.7	30.37199
18-Feb-13	455.45	42.01041
19-Feb-13	457.45	45.83333
20-Feb-13	451.3	43.57743
21-Feb-13	438.95	35.54585
22-Feb-13	441.95	42.96952
25-Feb-13	433.75	41.12941
26-Feb-13	427.35	38.79272
27-Feb-13	434.65	37.10819
28-Feb-13	416.05	35.61378
1-Mar-13	419.65	37.78715
4-Mar-13	417	36.46409
5-Mar-13	420.9	40.80828
6-Mar-13	425.65	45.9204
7-Mar-13	433.8	49.97699
8-Mar-13	432.2	47.41541
11-Mar-13	436.4	39.74152
12-Mar-13	431.45	38.92917
13-Mar-13	420.9	39.72681

FORMULA FOR CALCULATING RSI

RSI = 100 – (100/ 1+ Rs)

Average gain = Total Gains / n
Average loss = Total Loss / n

$$RS = \frac{\text{Average Gain}}{\text{Average Loss}}$$

Average Gain = 43/14 = 3.071429
Average Loss = 37.05/14 = 2.646429
RS = 1.160594
RSI = 100 – (100 / 1+ RS)
= 100 – (100 / 1+ 1.160594)
RSI = 53.71643

INTERPRETATION

RSI values above 70 are considered to denote overbought condition and values below 30 are considered to denote oversold condition. From the above table Relative Strength Index has 39.72681 on 13th March 2013. SELL: The investor can sell their shares only in the value of 70. So here they can't sell their securities. HOLD: The investor can hold their shares from 23rd January'13 to 13th March'13

SUGGESTIONS

- The investors should be trained to use the technical analysis tools. Since it will help them in their day to day investments to get more returns.

- he company should orient the investors to mainly watch the business, economic, social and Political factors that affect the supply and demand for securities.
- The investors can also use more number of charts which will depict a true picture on the movement of the securities.
- The investors should analyze market data in real time; plan your own market timing strategy to make money, regardless of upwards and downwards trending markets.
- Minute – by – Minute trading volume shows the reversal points of the market, and therefore when to buy and sell can be identified.
- "The trend is your Friend" is the motto of technical analysis. So the investor has to monitor the trend of stocks before investment.

CONCLUSION

Buying and selling of stock is not an easy task if you want to make money do it. Millions of investors have lost the money in past trying guessing stock price movements. In order to consistently make money in the stock market, investors have to be right over 70% of the time. So, this study on technical analysis in Canara Bank will help the investors in analyzing the scripts based on the technical tools and oscillators to earn fruitful investment. Technical analysis is the art and science of chart patterns in order to better analyze and predict prices of a given security. It is also becoming popular with the younger generation.

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