



A viable Wealth creation model through fundamental and Technical analysis

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ABSTRACT

Investment through equity market should be viewed seriously. It should not be through luck but through thorough Observation and analysis of the market condition to earn profit. This paper explains a theoretical frame work for investment in equity market and draws viable wealth creation model through fundamental and technical analysis.

KEYWORDS

Security analysis, Equity, FII, Risk diversion, Swing trading, depreciation and fundamental analysis.

Introduction

Equity analysis consists of fundamental analysis & technical analysis. The decision in investment of shares should be based on actual movement of shares price measured more in terms of money and percentage. In equity analysis, calculations are based on facts. The subject of equity analysis is to determine future share price movement with the help of financial tools. Equity analysis does discuss how to buy, sell shares and the methods, which enables the investor to arrive at a decision. The Technical Approach to investment is a reflection of the idea that prices move in a trend that are determined by the changing attitude of investor's toward a variety of economic, monetary, political and psychological forces. The technical analysis 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 the trend has reversed. This paper tries to draw a viable wealth creation model for the individual through s fundamental and technical Analysis.

Trading bodies

BSE and NSE Bombay Stock Exchange Limited is the oldest stock exchange in Asia. Popularly known as "BSE", it was established as "The Native Share & Stock Brokers Association" in 1875. It is the first stock exchange in country to obtain permanent recognition in 1956 from the Government of India under the Securities Contracts (Regulation) Act, 1956. The Exchange's pivotal and pre-eminent role in the development of the Indian capital market is widely recognized and its index, SENSEX, is tracked worldwide. Earlier an Association of Persons (AOP), the Exchange is now a demutualised and corporate entity incorporated under the provisions of the Companies Act, 1956, pursuant to the BSE (Corporatisation and Demutualization) Scheme, 2005 notified by the Securities and Exchange Board of India (SEBI). With demutualization, the trading rights and ownership rights have been delinked effectively addressing concerns regarding perceived and real conflicts of interest.

The Exchange is professionally managed under the overall direction of the Board of Directors. The Board comprises eminent professionals, representatives of Trading Members and the Managing Director of the Exchange. The Board is inclusive and is designed to benefit from the participation of market intermediaries. The Exchange has a nation-wide reach with a presence in 417 cities and towns of India.

The systems and processes of the Exchange are designed to safeguard market integrity and enhance transparency in operations. During the year 2004-2005, the trading volumes on

the Exchange showed robust growth. The Exchange provides an efficient and transparent market for trading in equity, debt instruments and derivatives. The BSE On Line Trading System (BOLT) is a proprietary system of the Exchange and is BS 7799-2-2002 certified.

The Concepts and types of Security Analysis

Security analysis is the initial part of investment decision process involving the valuation and the analysis of individual securities. The core approach of Security analysis is fundamental analysis and technical analysis. Fundamental analysis is the study of stock value using basic financial variables to find the intrinsic value of the company. The variables include sales, profit margin, depreciation, tax rate, source of financing, asset utilization and other factors. Additional analysis involves company's competitive position in the industry, labour relation, technology change, management and foreign competition.

Technical analysis is the search for identifiable and recurring stock price pattern. Investors are beware of the market efficiency but sometimes psychology overtakes play an emotional role. This has an implication on equity prices in short run to be in a hurry.

Company level Fundamental analysis

Here two methods are used; they are intrinsic valuation and relative valuation. The first is the discounted cash flow technique. Dividend discount model uses present value method by discounting back all future dividends. Relative valuation model uses P/E ratio, P/B ratio and P/S ratio.

Risk Diversion

Risk diversion is the key to the management of Portfolio risk, because it allows investors to lower the risk substantially without affecting return. Efficient diversification takes place in an efficient portfolio that has smallest portfolio risk for a given level of expected return or the largest expected return for a given level of risk. Investors can specify a portfolio risk level they are willing to assume and maximize the expected return on portfolio for this level of risk.

Business environment level technical analysis

This is done by analyzing the statistics generated by Market activity, price and Volume. No intrinsic value should be taken but instead patterns and indicators on charts should be monitored to know the future performance.

This is not heavily dependent on financial accounting statement. This has to recognize a movement to a new equilibrium.

um. Technicians trade at this point.

Main steps to build a trading system

Observation, Hypothesis, Measuring the Hypothesis, Measuring the timeframe, Developing the strategy, Entry rules, Exit rules, Position size and risk management

Risk in Swing trading and choosing the stock

Both involve risk. Understanding market analysis during futures and stock picking can mitigate risk and enhance profit. The risk during stock market swing trading is calculated by taking the difference between the entry point and the protective stop and then multiplying this figure by the amount of shares. It is similar for future swing trading.

Stock swing trading versus future swing trading

Advantages of stock swing trading includes the many different stocks that are available that can be selected through good stock picking and market analysis. Stock market swing trading is also helped by comparing a particular stock to the stock trading indexes. Future swing trading provides leverage so that much more money can be earned in a shorter period of time. Future swing trading has the same calculation of risk as in stock trading because the risk is calculated based on the difference between the open of the stock trading or future trading and protective step.

Stock market charts

Stock market chart history shows our trading result over time. It shows how just price and volume is used to create excellent returns for the small investors.

Swing trading premier

Survey shows more than 90% of the investors and traders of stocks and commodities lose money. Self education (starting with stock premier) can stop the threshold into consistently making money trading. This swing trading premier and stock premier with historical trading results will help in this effort. Viewing the trading results will help to connect what has learned in the swing trading premier to actual trades.

Good trading system has more good trades than bad trades and has average gains bigger than average loss. A successful trading system must encompass rules for starting and ending trades, limiting risk and protecting principal.

How to pick the best stock

Best stock picking can be done by the following ways. Business model, Growth rate, Sector leadership, Market capitalization, Dividend yield, Net profit margin and operating profit margin and free cash flow

Wealth creation model through intelligent stock picking

- Interest of business of Promoters should have 60-70% holding in the company.
- Management efficiency by way of 25 to 30% on Return on investment consistently.
- Public demand can be viewed through P/E ratio(Price earnings ratio). Price must e current net price of share. P/E < 15 shows under value stocks.
- Performance of the company through EPS
- Debt free company
- PEG ratio(Price earnings ratio)
- Beta(<1) Variations
- Call option and put option

Conclusion

The survey analysis that 90% of the investors and traders of stocks and commodities lose money is disturbing. Hard earned money of investors especially small and medium investors are losing by simply parking in equity market. But smart investors who study the market regularly earn money through systematic investment. Self education can stop the threshold into consistently making money trading. FII's are parking money in Indian stocks and take out huge profit. But unfortunately the domestic investors are unaware about these investments. Awareness need to be created to bring more people to the inclusive financial education for better profit.

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