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FUNDAMENTALANALYSISVERSUSTECHNICALANALYSIS - - ACOMPARATIVEREVIEW

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ABSTRACT: There are numerous stocks to pick from, making it difficult to decide. This decision-making method employs both basic and technological analysis. This essay looks at the history and key components of each decision-making tool. Fundamental analysis examines the market, sector, and company that underpins the stock under consideration. MACD, OBV, Moving average, and other technical indicators are used in technical analysis to analyze previous stock market prices. The benefits and drawbacks of each instrument are discussed.

KeyWords:*Fundamentalanalysis,Technicalanalysis,Decision making tools, Equity market.*

1. INTRODUCTION

Stock selection in the equity market is complex due to the enormous number of possibilities and the numerous outside factors that influence the pick. The primary stock market decision-making methods are fundamental and technical analysis. Several specialists have investigated the external elements that influence stock selection. The following publications address this subject.

Das (2012) investigated the stock selection determinants of Assamese small investors. Profitability, public information, referrals, and corporation financial records had the greatest influence on decision variables. Governmental rules, risk assessment, economic variables, and discounted cash flow approaches had the least impact on choice variables.

Ali and Rehman (2013) investigated the stock selection of Pakistani individual equity investors. According to the study, company reputation, media visibility, corporate social performance, market status, source of recommendation, dividends, price movements, and volatility all had an impact on stock behavior. It was discovered that the company's primary operational location, investor relations management, and product and service understanding of the management team had no effect on investor behavior.

Obamuyi (2013) explored the factors that influence the actions of Nigerian capital market participants. The company's previous share performance, a planned stock split, a dividend scheme, expected corporate profitability, and rapid wealth creation were the primary reasons. Company loyalty, religious convictions, family attitudes, hearsay, and predicted investment losses were the least influential factors. Socioeconomic and demographic factors influenced Nigerian

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investors' investment decisions.

Bennet et al. (2011) investigated the equity stock investment attitudes and variables of retail investors in Tamil Nadu. First, investor risk tolerance, economic health, stock market media coverage, government stability, and business policies all had an important role. The least influential were wealthy investor stories, rapid wealth growth, online information, and company cost-cutting.

Kaur and Rajam (2012) investigated how several variables influenced the decisions of Mumbai equity share market participants. The market capitalization and historical performance of the company had the largest influence on the 36 variables studied. Variables were least affected by market index differences and professional colleague conversations. Participants' investment decisions were substantially influenced by their education.

2. INVESTORS'DECISION-MAKING TOOLS

Fundamental and technical analysis are used to make stock market decisions. Fundamental research is reviewing and analyzing publicly available stock data. This research looks at the economy, the stock's industry, and the company's operations. Technical analysis, on the other hand, makes conclusions based on a variety of stock price indicators. The flowchart below explains the two decision-making instruments in the stock market.

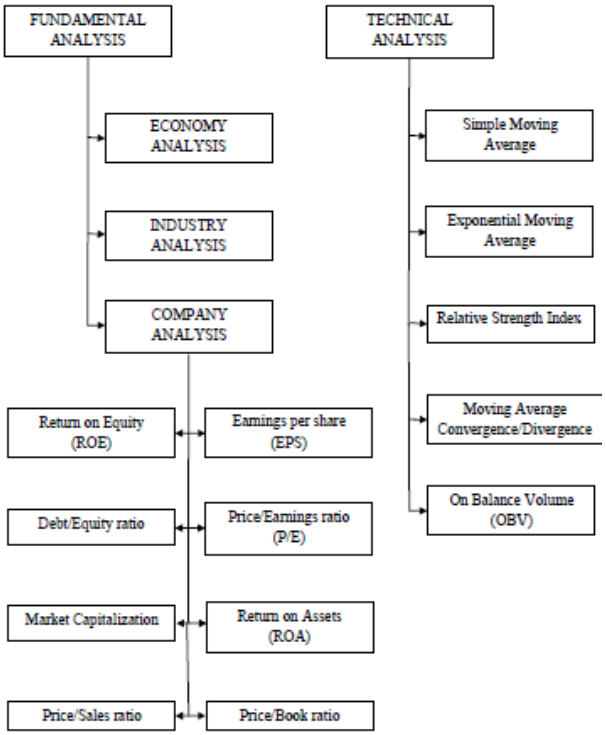

Figure1 ComponentsofFundamentalanalysis and Technicalanalysis

3. FUNDAMENTALANALYSIS

In the 1930s, the Securities and Exchange Commission was founded by the Securities Exchange Act of 1934. Because of the severe penalties for market manipulation, the body was assigned with market regulation. The book "Security Analysis" by Columbia University professors Graham and Dodd, published in 1934, is particularly important. This book emphasizes the significance of conducting thorough business research in order to generate favorable returns and assess share value. Suciu (2013) believes that long-term investing should include stock purchases. Fundamental analysis takes into account the economy, industry, and firm.

utilizing publicly available data, the stock price was calculated utilizing macroeconomic conditions, industry dynamics, and firm fundamentals. The economy is analyzed using GDP, purchasing power, growth rate, interest rates, and inflation. Before purchasing stock in a company, the economy is scrutinized with the expectation that a strong economy will help the company and improve share prices (Venkatesh, 2012). Naik and Padhi (2012) and Naik (2013) discovered a stable equilibrium link between

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macroeconomic parameters and the Indian stock market index.

Singh (2010) discovered a link between macroeconomic conditions and the Indian stock market index. As a result, economic analysis influenced share prices. Following industry study, it was demonstrated that government policies will benefit certain industries more than others, even during periods of overall economic expansion. As a result, before investing in stocks, you should conduct market research. Cost structure, worldwide competition, level of competition, and government laws and regulations are all factors considered in an industry analysis. The third step entails evaluating the firm's financial performance, future prospects, senior management, competitive advantage, labor relations, and market share. Balance sheets and income statements provided access to firm-related financial data. To determine a company's investment potential, several financial ratios should be analyzed (Venkatesh, 2012). Young (2010) investigated a number of key ratios used in business analysis. These ratios aid in assessing a company's financial and operational health.

Earningspershare(EPS):

To get the phrase, divide (Net Income - Dividends on Preferred Stock) by the number of outstanding shares. The above ratio calculates the percentage change in the value of a share over time.

Price/earningsratio(P/E):

To calculate the term, divide the market price per share by the EPS. This ratio indicates how closely the stock price and earnings of a company are linked. A high price-to-earnings (P/E) ratio suggests that the market expects stock prices to rise. A declining price-to-earnings (P/E) ratio indicated a reduction in stock price.

Return on assets (ROA):

The formula is as follows: net income + interest expense/total assets. The ratio demonstrates how effectively the company utilises its physical assets. A higher ROA suggests that the firm has superior asset management and financial stability. A declining return on assets (ROA) suggested that the company's earnings were not reaching their full potential, anticipating a drop in the stock price.

Returnonequity(ROE):

The above calculation is calculated by dividing post-tax earnings by shareholder equity. The ratio demonstrates how well shareholders' money is used and how profitable their investments are. A low return on equity (ROE) indicates inefficient allocation of shareholder funds.

Debt/Equityratio:

The expression is total liabilities divided by shareholders' equity. This statistic calculates leverage by comparing available capital to capital used. A decreasing percentage shows that credit was not used fully.

Market Capitalization:

The aforementioned computation is obtained by multiplying the number of shares by the price per share. This indicator tracks the trading of market shares. Market capitalisation divides stocks into three categories: small-cap, medium-cap, and large-cap.

Price/sales ratio:

To get the result, divide the share price by the 12-month revenue. This metric demonstrated how well the stock price reflected its true value.

Price/book ratio:

Divide the stock price by the difference between total assets, intangible assets, and liabilities to get the above statement. This statistic compared the market price of stocks to their intrinsic worth. This metric displayed the stock's high or low valuation.

According to the basic analysis principle, the underlying value and expected return of a stock determine its price today and in the future. Because recent company information altered the expected return, the research was updated on a regular basis. Stock price fluctuations were forecasted ahead of time. Sureshkumar and Elango (2011) recommend examining the economic and industrial environments to identify the possibility for share increase. The goal of fundamental analysis was to uncover stock price drivers. Compounding, which enhances the value of an investment over time when earnings are

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reinvested, is the focus of fundamental analysis. Most long-term investors used fundamental research in their investment plans because they valued corporate fundamentals. People would primarily use buy-and-hold and other long-term investing methods (Gould, 2016). Basic analysis is required for value investment. Basic analysis is hard and time-consuming, leaving non-specialists unable to participate. Basic research can only predict the direction of stock prices, not the exact variations (Venkatesh, 2012).

4. TECHNICALANALYSIS

Charles H. Dow, the founder of the Wall Street Journal, is regarded as the father of technical analysis. In the 1870s, when the stock market was still unpopular and stock information was limited, Dow began publishing the "Customers' Afternoon Letter" monthly. This idea proposed that stock market success may predict economic growth. The Dow Theory laid the groundwork for technical analysis. In 1894, nine railroads collaborated with Dow to build the Dow Jones Transportation Average. In 1896, Dow established the Dow Jones Industrial Average, which included 12 industrial businesses (Suciu, 2013).

Several analytical methodologies are employed in order to evaluate historical stock price trends and forecast future stock prices. In contrast to fundamental analysts, who examine the stock's underlying value, technical analysts forecast stock price movements using past prices and volume charts. Using technical analysis, the investor can determine if the stock is heading up or down. As a result, technical analysts did not take stock price overvaluation or undervaluation into account. They concentrated on forecasting future pricing based on historical trends.

Technical analysis assumed that stock prices at any given moment included all essential market supply and demand elements. Instead of taking these factors into account, the investigation looked at market price. By analyzing monthly, weekly, and daily price swings, technical analysis was utilized to forecast stock price changes. To employ technical techniques, stock price tracking calculations were used. Stock decisions were driven by buy/sell signals generated by chart analysis, computer algorithms, and manual computations. OBV, MA, MACD, and RSI were utilized in the study (Sureshkumar & Elango, 2011; Venkatesh, 2012). Young (2010) investigated the most important technical indicators utilized in technical analysis. Among the warning signs are:

Simple moving average:

This technical indicator assisted in predicting stock price patterns and determining the optimal time to reverse trends. Moving average lines improve both short and long-term time spans. The direction of the line indicates the current trend. The share price was supposed to rise when a simple moving average line moved below (above) the share price line on the price chart.

Exponentialmovingaverage:

The technical indicator resembled a moving average line, but it focused on the present rather than the past. This tool outperformed the regular moving average indicator.

Relative strength index:

The index is calculated as follows: 100 - (100 / (1 + (Average of positive closing values / Average of negative closing values)). The RSI is predicted to be 0-100. Stocks with high Relative Strength Index (RSI) values were overbought, while those with low levels were oversold.

Moving Average Convergence/Divergence (MACD):

The momentum was measured using the equipment. The MACD line was calculated by subtracting the 12-day exponential moving average from the 26-day exponential moving average. The 9-day exponential moving average was displayed on the signal line (second line). When the MACD line crossed the signal line, an ascending (declining) trend began.

OnBalanceVolume(OBV):

Another momentum indicator was developed by integrating volume on days when stock prices increased and decreased. A falling On-Balance Volume (OBV) line indicates a dip in stock prices, whereas an ascending line indicates a rise.

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Momentum and contrarian techniques are frequently used by technical investors. Momentum investing is based on investors' assumption that previous price trends will repeat themselves. As a result, investors blindly followed the herd. When investors are largely negative about a stock, the contrarian investment strategy entails purchasing it. As a result, individuals began purchasing goods for considerably lower prices. However, when most of their competitors liked the stock, investors sold shares at a premium (Tripathi, 2009).

The best stock price change time is sought via technical analysis. Technical analysis focuses on stock market value and comprehending volatility. Technical analysis is used by both long-term and short-term investors. Most of these investors employ technical analysis to enter and leave the market in the hopes of becoming wealthy quickly (Gould, 2016).

Individual investors favoured technical analysis over fundamental research, according to Mitra (2002), because the latter required expensive and time-consuming information. Several charting approaches were utilized in technical analysis to display stock price swings more clearly. Due to subjective forecasts and personal biases, technical specialists may interpret the analysis differently. varied technological experts may have varied expectations from this occurrence. One drawback is that this study only recorded the trend after it had already been established. As a result, the detection and expression of the trend would be delayed. According to Venkatesh (2012), this causes market entry and exit decisions to be delayed.

Technical analysis, according to Kumar et al. (2013), Lui and Mole (1998), and Taylor and Allen (1992), is more effective for shorter time periods than fundamental analysis. Wong and Cheung discovered that investors preferred technical and fundamental research over portfolio analysis in their 1999 stock analysis study.

Venkatesh and Tyagi discovered in 2011 that over 85% of respondents used fundamental and technical analysis to forecast price changes. According to the study, investors used technical analysis when the market was up and fundamental analysis when it was down. According to Lewellen et al. (1977), many investors use fundamental or technical analysis to assess common shares. Menkhoff (2010) studied five countries throughout the world to gather accurate statistics. The sample includes 692 fund managers, the majority of whom planned investments using technical analysis. Technical analysts who drew judgments using technical instruments were well-informed and confident. The researchers preferred momentum and contrarian trading strategies because crowd psychology affected stock prices. Smaller asset managers used technical analysis more frequently. Technical analysis was commonly utilized to supplement fundamental research. Short-term time spans, such as a few weeks, are more popular for technical analysis. At this time, technical analysis trumped fundamental analysis.

Mitra (2011) investigated technical trading strategies based on moving averages in the Indian stock market. Four stock indices were used in this investigation. The research discovered that the techniques predicted market behavior. Profitability was hampered by transaction costs. Technical trading strategies such as the displaced moving average, according to Kakani and Sundhar (2006), can benefit despite transaction costs. Over a 15-year period, the BSE Sensex, S&P CNX Nifty, and other firms were analyzed using the simple moving average and displaced moving average indicators.

During positive market phases, Sehgal and Gupta (2007) discovered that transaction costs precluded technical indicators from exceeding fundamental research's purchase and hold method. The benefits of technical analysis were not seen as commercially viable by industries. However, due to technical analysis and company fundamentals, value stocks and tiny firms produced higher stock returns than growth stocks and large firms. Kumar et al. (2013) surveyed the Indian stock market to determine the value of fundamental and technical analyses over time. The time durations

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ranged from a year to six months, three months, one month, one week, and one day. According to the study, technical analysis is more essential for one-month, one-week, and one-day time frames. Basic analysis took primacy when the forecasting period exceeded one year, one year, and six months.

Hayat et al. (2010) investigated technical analysis through the use of historical price data, trade volume, chart patterns, past trends, and daily price fluctuations. Investors placed a premium on daily price changes and active trade activity. According to the authors, more active investors employ technical analysis. The fundamental examination looked at firm information, financial statistics, management quality, and government laws. Investors preferred financial ratios. Overconfidence and risk may also be affected by basic analysis. Tripathi (2009) used questionnaires for active equity investors, fund managers, and investment specialists to investigate Indian stock market investment practices. According to the report, Indian investors now use fundamental and technical research approaches. Basic analysis was utilized exclusively by 17.2% of the sample, whereas technical analysis was used by 8.6%. 74.2% of the sample used technical and basic analysis. The use of technical indicators based on prior stock prices to identify trends and beat the market refutes the weak efficient market theory. To forecast price changes, technical indicators were utilized to compare random prices to conditioned distributions. As a result, an efficient market that believes prices are unexpected within a rational framework has been called into question.

5. CONCLUSION

Fundamental and technical analysis have long been the primary decision-making tools in the stock market. Depending on the stock market, some investors use one instrument while others use both. This study looks into the origins and fundamental components of two tools. The advantages and disadvantages of each instrument were also examined. The literature has addressed how outside influences influence stock selection. As a result, this study advises newbie investors on how to choose the best decision-making tools for various stock market scenarios. To make an informed decision, examine the benefits and drawbacks of each gadget.

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