

Course Code: CMRC3033

Course Name: Fundamentals of Investment Management

B.Com (H)- VIth Semester

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Approaches to Analysis of Equity

➤ Fundamental Analysis

➤ Technical Analysis

Fundamental Analysis

under fundamental analysis, analysts analyze the fundamental facts around the stock's value, regarding company's earnings, their management, the economic and market conditions etc.

Types of Fundamental analysis:

- Economic Analysis
- Industry Analysis
- Company Analysis

Economic Analysis

Success of the economy will ultimately include the success of the overall market.

Factors of economic Analysis

- Economic Growth (measured by GDP growth).
- Interest Rates and Inflation
- Industry Growth Rate
- Foreign Direct investment
- Monetary Policy
- Tax Structure
- Demographic factors

Techniques of economic forecasting

- Anticipatory Survey
- Indicators Approaches
- Money and Stock Prices
- Econometric methods
- Sectoral analysis

Industry analysis

Average stocks in a growth industry usually out perform the best stocks in a stagnant industry.

Classification of industry

➤ Growth industry

Energy, IT, Petro- Chemicals sector

➤ Cyclical industry

FMCG sector

➤ Defensive industry

Food and shelter product sector

➤ Cyclical growth industry

Automobile sector

Steps of Industry analysis

- Review of the available information related to the specific industry.
- Get an overview about the industry.
- Forecast of future demand and supply.

Industry analysis tools

- Sensitivity to the business cycle
- Industry growth
- Sector rotation
- Market share
- Regulation
- Industry life cycle

Company Analysis

Fundamental analysis is the method of analyzing companies based on factors that affect their intrinsic value.

Techniques under company analysis:

- The Quantitative Techniques
- The Qualitative Techniques

Types of techniques

➤ The Quantitative Techniques

This involves the following aspects:

- ✓ Company's assets, liabilities,
- ✓ Cash flow,
- ✓ Revenue and
- ✓ Price-to-earnings ratio.

➤ The Qualitative Techniques

This approach involves the following aspects:

- ✓ Brand,
- ✓ Management trustworthiness,
- ✓ Customer satisfaction
- ✓ Culture and environment

The factors governing the company analysis

- Competitive ability

 - Market share, Growth of annual sales*

- Earnings of the firm

 - Change in sales and Change in costs*

- Capital structure of the firm

 - Share capital(includes owner capital) and Debt capital*

- Management structure of the firm

- Operational Efficiency of the firm

- Financial of the firm

 - Balance sheet and profit and loss accounts*

Technical Analysis

Technical analysis involves a study of market-generated data like prices and volumes of sales to determine the future direction of price movement

Indicators of technical analysis:

- Relationship between price –volume
- Relationship between supply and demand

Types of indicators of Technical Analysis

- ✓ Price trends
- ✓ Chart patterns
- ✓ Volume and momentum indicators
- ✓ Support and resistance levels

Tools of technical analysis

➤ Dow theory

➤ Primary Trend

➤ Secondary Trend

➤ Minor Trends

Key differences between fundamental and technical analysis

Key differences	Fundamental Analysis	Technical Analysis
Purpose for objective	Long term Investment To identify the intrinsic value of the stock.	Short term Investment To identify the right time to enter or exit the market.
Trend	This theory base on past and present data both	This theory based on past data
Assumptions	There are no assumptions	Stock prices based various assumptions
Decision Making	Decision based on the financial statements, demand forecasts, quality of management, earnings and growth.	Movement of stock prices depends upon the market trend.
Usefulness	Investors can identify undervalued or overvalued shares.	Investors can buy or sell order
Sources of data	Newspaper, internet, magazine and economic analysis	Chart analysis