

Fundamental & Technical Analysis of Stock for Beginners

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Abstract:- Stock market is for local public to invest their money in companies and get their shares. If 'A' person wants to get shares of SBI Bank, stock market will provide him a seller who wants to sell his stock. We have created this project for beginner to help them for prediction of stock. We have considered 3 major factors like Technical, Fundamental & News. In Technical analysis we used 44 moving average, as it forms average of 44 days closing candle average. In fundamental we have used 3 basic rules of analysis, which are used by many investors and they show long term vision of company and their internal management. News plays an important factor to dump or rise of share price, as is plays with people sentiments. Using these 3 predictions a beginner can sort list of stock which he wants to buy.

I. INTRODUCTION

Stock market can be the primary or secondary source of income. Investors use the stock market to build their wealth. Before investing in stock market, fundamental and technical analysis of stock should be done for the great returns within less span of time. Also, investors should know the how any news effects on the stock market so that they can avoid loss or make profit. So, in this research paper we will study some parameters like fundamental analysis, technical analysis and how the news effects on the stock market by which we can predict the direction of stock market or any specific stock. Also, we will see some stocks performance based on the above parameters.

Before that we will analyze some others research paper based on respective parameter so that we can get the more information about the stock market.

II. LITERATURE REVIEW

➤ *The Fundamental Analysis: An Overview: Soniar. Bentes, Rahul Navas[2].*

Fundamental analysis examines and determines the values of the companies while examining its economic and financial reports such as liabilities, assets, expenses etc. person uses a top-down approach or bottom-up approach while carrying out fundamental analysis. different sector investors use the fundamental analysis method differently to target different ways of gaining profits and predicting the future growth of a stock keeping in mind their span of

investment. The fundamental analysis is mainly used by the shareholders who have largely surpassed the stock market's annual return. This method is widely used because it helps identify companies with long term advantages, it is easy to carry out, and it is a consistent process as the process is carried out by analyzing the available financial reports. Its pros fundamental analysis specifies a range of prices. Many analysts use ratios such as EPS [earning per share], ROE [return on equity], ROI [return on investment], and P/E ratio [price to earnings ratio] thus, it concludes that fundamental analysis which uses qualitative and quantitative information is better or suitable for long term investments.

➤ *Technical Analysis of Indian Financial Market with the Help of Indicator: Mohd Naved [3]*

Technical analysis is the method to predict future earnings by studying past performance and trends. Major indicators that are successful are moving average and MACD (moving averages and convergence/divergence). Financial markets are the places, where buying and selling of assets is carried out at low cost. Stock market mainly contains two types of analysis fundamental and technical. fundamental analysis mainly focuses on financial performance and stock prices whereas technical analysis is predicting the future trend using the study of past trends. moving average is the average of security prices over a while. mean of all values. this average keeps on changing every day.

➤ *The Impact of Mass Media Communication on Stock Trading Decisions: An Empirical Study: Prem Malhotra, Sunita Malhotra [4]*

The buying or selling of the stock is a crucial task for traders and investor as it decides the wether they will get profit or loss. The research shows that news/social media communication has been more effective than both fundamental and technical analysis. Mass media carries rumours, news related to companies, etc. various mass media are Instagram, newspapers, media, Facebook, etc. Mass media communication has a strong relationship with the buy and sells of stocks even more than the fundamental and technical analysis. This information passing through mass media has a strong and effective psychological influence on traders or investors. Local media working and information exchange usually reflect the investing in the area. If there a good or negative news pf a company management affect the sentiments of traders and investors to change their decision

and there are rumours, which affects the share negatively in future.

III. IMPORTANT FACTORS

A. NEWS ANALYSIS

Effect of news on the stock market

In this part, we will see that how any news affects the stock market or any specific stock by studying news and its effect on a specific stock. News changes the mindset of investors. It impacts positively or negatively on the stocks.

Bad news will normally cause people to sell stocks. A less profit than expectation, pandemic and political uncertainty all convert to selling and causes a decrease in prices of specific stock or effects badly on the whole market.

Positive news will normally cause investors to purchase stocks. The good earnings report, positive economic environment, stable political affairs all converts to a large amount of buying and increase in stock prices or effects positively on the whole market.

Negative news for any stock may be taken positively for another stock that is in competition with that stock or in the same field.

News and Effect:

News: **Bank of Maharashtra, Bank of India, IOB & Central Bank of India: Government shortlists these 4 banks for potential privatisation, says report[news by money control website]**

Effect: Central Bank of India, Indian Overseas Bank shares jump 20% each on privatisation news.

B. TECHNICAL ANALYSIS

In technical analysis, we will use only one parameter to predict the market that is a simple moving average. A Simple moving average is a technical indicator used to determine the direction of a trend. It is the sum of all the data points over a period of time and divides the total by the number of time periods set to get an average. It is called a “moving” average because it continuously keeps changing its value based on the latest price. In financial markets, use of SMA indicator to determine whether to buy or sell a stock. The formula for Simple Moving Average is written as follows:

$$SMA = (A_1 + A_2 + \dots + A_n) / n$$

Where,

A is the average in period n

n is the number of periods

Example:-

If a person wants to calculate the simple moving average for Stock ABC by looking at the closing prices of the stock for the last five days. The closing prices for Stock ABC for the last five days are as follows: Rs-23, Rs-23.40, Rs-23.20, Rs-24, Rs-25.50. The SMA is then calculated as follows:

$$SMA = (23 + 23.40 + 23.20 + 24 + 25.50) / 5$$

$$SMA = 23.82$$

So the average of ABC stock is 23.83 Rs.

➤ MOVING AVERAGE:

Moving averages can be calculated for any time frame from minutes, hours to days and months. Investors can select any time frame to analyse the market on your requirements.

The average is calculated by a smooth curving line and it continues to move as time passes.

The moving average can be used to identify heavy buying or selling opportunities in the market. When the stock price trades above its average price (i.e. the chart of the specific stock is above the moving average) it means the traders are willing to buy the stock. This means the traders feelings are very good about the stock price. Therefore, one should look at buying the stock at that time. Likewise, when the stock price trades below its average price (i.e. the chart of the specific stock is below the moving average) it means the traders are willing to sell the stock. This means the traders feelings are not good about the stock. Therefore, one should sell the stock to avoid losses in the market.

C. FUNDAMENTAL ANALYSIS

Fundamental analysis is used to analyse the company's valuation. By fundamental analysis, we get to know the actual value of the company. **The fundamental analysis mainly used to predict the true value of the stock by the calculated the risk of profits, dividends.** Using it we can find the company which can be worth of core, and its share is undervalued, therefore it is an important factor of analyses.

➤ FINANCIAL STATEMENTS AND FINANCIAL INDICATORS

The basic rule of analyses consists of the balance sheet, cash flow, debt, assets. These financial statements are the primary source of information for retail investor, trader as well as public.

➤ FUNDAMENTAL ANALYSIS 3 BASIC RULE:

RULE 1: Assets = Liabilities + Equity

ASSET:

- Assets are likely to provide the organization with future strategic benefits due to earlier sales.
- Included are cash, receivables, stock and long-term property, such as equipment and furniture.

LIABILITIES:

- This means that the corporation's obligations are the liabilities.
- Liabilities are described as responsible for debts or obligations from past purchases to be paid to products or facilities in future.

EQUITY:

- There are two pieces of equity on a company balance sheet: 1) Financial contributions or stock sales

investments by the proprietors (such as down payments on their homes), and 2) income sustained (like the increase in value of your home).

- Recovered income is the amount of net income received by a corporation, which has not been paid to its owners since its foundation.

RULE 2: Cash Flow

- You can't retain the corporation if you can't make the payroll or pay the suppliers.
- Current ratio = Current Assets / Current Liabilities**
- The basics are cash, receivables and stock.
- Within one year, the company would pay all its liabilities under an existing above-1 ratio.

RULE 3: Compare the company balance sheet for the last 5 years.

- Take a look at year to year balance sheet
- For instance, if you are a commodity company and inventory management is important, a comparative balance sheet may be the first step in deciding whether or not you have a problem.

EXAMPLE:

If we take an example of **Tata Consultancy Services(TCS)** and measure it according to the 3 Basic Rule of Fundamental Analysis.

RULE 1:

Total Assets	74794.00	74368.00	78898.00	78266.00
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Comparing the last 4 years Asset, the asset has grown and it shows a positive sign for long term investment.

RULE 2:

Reserves & Surplus	74424.00 2021	73993.00 2020	78523.00 2019	75675.00 2018	77825.00 2017
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The cash flow in the company, as we can see in the covid period the company reserves & surplus decreased in 2020 but the company in 2021 has increased their reserves by **431CR**.

RULE 3:

- DEBT EQUITY RATIO** of the company is 0.0 as there are no loans on the company.
- The Current Ratio** of the company is decreased by **1.78%**
- Return On Assets** of the company is down by **41.39%**

IV. CASE STUDY

A. Tata Consultancy Services(TCS) [5,6]

Published on Investing.com, 21/Apr/2021 - 8:16:24 GMT, Powered by TradingView.
Tata Consultancy Services Ltd., India, NSE:TCS, D
MA (44, close, 0)



TCS is an example of good fundamental and good technical & news because of this it manages to give us profits for a longer time frame.

Fundamental - Tata Consultancy Services (TCS) is the largest and the most valuable debt-free company. According to the 3 Rule of fundamental analysis, the asset has grown and it shows a positive sign for long term investment, reserves & surplus increased in 2021. Debt Equity Ratio of the company is 0.0 as there are no loans on the company. The

Current Ratio of the company is decreased by 1.78% Return On Assets of the company is down by 41.39%

Technical - For technical analysis, we have used 44 moving average as parameters. As you can see in the above chart the blue line is moving average. If you had bought the stock when moving average touches the candle near the first arrow

and holds it for just one month till moving average again comes near the candle. The stock moved from 2680 to 3225 with a return of 20% in just one month.

current market price of Tata Consultancy Services Ltd. is Rs 3163.1.

News - ICICI Securities NSE 3.54 % has a buy call on Tata Consultancy Services with a target price of Rs 3354. The

B. Tata Motors Ltd (TAMO) [5,6]

Published on Investing.com, 21/Apr/2021 - 7:07:00 GMT, Powered by TradingView.
Tata Motors Ltd, India, NSE:TAMO, D
 MA (44, close, 0)



Tata Motors is an example of a good technical but bad fundamental stock still the stock manages to go up because of the very good technical & news of the stock

Fundamental - Tata Motors had a total debt of ₹1.18 lakh crore as of March 31, 2020. So investing in a debt stock may lead to losing our capital in that stock. Investors should avoid such stocks in their portfolio.

(second black arrow) you can see the stock moved from 160 to 310 which is 90% profit.

News - Tesla in talks with Tata Motors for EV charging infrastructure

Technical - For technical analysis, we have used 44 moving average as a parameter. As you can see in the above chart the blue line is moving average. If you had bought the stock when it touches the candle on 20 December (first black arrow) and hold it till it again touches the candle on 15 March

HDFC Securities is bullish on Tata Motors has recommended a buy rating on the stock with a target price of Rs 315 in its research report dated February 01, 2021.

C. Yes Bank Ltd (YESB) [5,6]

Published on Investing.com, 21/Apr/2021 - 14:51:03 GMT, Powered by TradingView.
Yes Bank Ltd, India, NSE:YESB, D
 MA (44, close, 0)



Yes Bank is an example of weak technicals and weak fundamentals, as well as the news related to this stock, are not good in the market, hence sentiments in people related to stock are bad.

Fundamentals: Total growth of yes bank in 2020 was - 24.57% and had a profit of -18,576 cr.As the two parameters in fundamentals are negative, investors will avoid this stock to add to their portfolio.

Technical: In the chart, as we are using the moving average parameter, we can see that the current share price is trading below the moving average line. As it is showing weak technicals, so invest in this stock may be risky and leads to losing the capital.

News: Market capitalisation of the lender rose to Rs 40,463.67 crore. The stock has touched a 52-week high of Rs 87.95 and a 52-week low of Rs 5.55. Share of the private lender has fallen 58% in one year. The share has fallen 3% in one week, 8.5% in a month. Year-to-date, the stock is down 9%.

D. Havells India Ltd (HVEL) [5,6]



HAVELLS INDIA is an example of a good fundamental and down technical chart, as well as news of the company showing that there is a surge in the home appliances market.

Fundamental: According to the 3 Basic rule of analysis, the company shows a positive sign. The company has been maintaining a healthy dividend payout of 24.52%. The asset of the company also increases over the period of time, the cash flow of the company is very good. Stock P/E is 68.4 which is very good for the long term and the market cap is relative to its competitor.

the share price as fallen in price, so this shows weak technical support in market.

News: Ravindra Singh Negi, Havells NSE 0.38 %, discusses the demand surge of home appliances during Covid-19 times and how the market dynamics have shifted to online. Havells India shares fall 1.19% as Nifty drops

Technical: In the chart, we can see there is a negative sign of the graph, as the 44 moving average shows the down line and

E. Reliance Industries Ltd (RELI) [5,6]



Reliance Industries Ltd company is favourite of many investors as the company is showing very good results in fundamental as well as technical analysis, news related to the company is also good. Reliance Industries is Good Stock for long term investment.

Fundamental: By looking at the 3 Rule of analysis, company net profit, asset are increasing, sales of the company are increased rapidly over the year. Reserver of the company is brilliant, as the investment is increased from a foreign institute. The debt of the company is decreased in the year so in long term, very good share to buy.

Technical: As we can see from the chart in 2020 may the 44 moving average shows a linear growth in the market, from 1100 to 2169, which is really good growth in a year. So this shows a positive sign to include it in your portfolio.

News: Reliance Industrial Infrastructure consolidated net profit rises 11.90% in the March 2021 quarter
RIL subsidiary acquires additional stake in skyTran; share price gains

V. CONCLUSION

We can conclude that all parameters fundamental analysis, technical analysis and news analysis have their own advantages and disadvantages. News creates physiological effects on investors or traders thus controlling their investing or trading more than fundamental and technical analysis. Fundamental is more of studying liabilities, assets, loan of companies, debt, etc whereas technical analysis involves more of studying the past trends. The investor can predict their respective stock by using these parameters, but the profit is not 100% guaranteed by any of this method and there is always a risk in investing in the stock market no matter how much the investor research, but he/she stands in a better position than other investors or traders.

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