

# Economic Analysis

1. It involves assessing or examining topics or issues from an economist's perspective.
2. This allows investors to analyse the market from the big picture to all the way down to individual stocks.
3. By examining the economic numbers one can determine the current market strength and have a better idea of what the future holds.
4. Key Economic indicators investors must incorporate while selecting stocks:
  - i. Indices (e.g. Nifty, Sensex)
  - ii. Gross Domestic Product (GDP)
  - iii. Unemployment rate
  - iv. Inflation rate
  - v. Consumer Confidence
  - vi. Purchase Managers' Index

# Types of Fundamental Analysis

## Qualitative Analysis

It takes into account information that can not be expressed in numbers.

- i. It relates to the company itself.
- ii. Factors – examples –
  - a) Management experience and performance
  - b) Corporate governance
  - c) Industry and competition etc.



# Types of Fundamental Analysis

## Quantitative Analysis

- i. It is related to information that is shown in company's financial statements. It involves measuring simple statistical data to complex calculations.
- ii. This analysis helps you to evaluate investment opportunities such as when to buy and sell securities.
- iii. Factors – examples -
  - a) Company's revenues
  - b) Profit margins
  - c) Return on equity
  - d) Future growth potential
  - e) Financial ratios



# Using Financial Ratios for Fundamental Analysis

## 1. Price To Earnings Ratio

- i. It is one of the most widely used financial ratio analysis.
- ii. Computation - Price Per Share / Earnings Per Share.
- iii. As a thumb rule, a low P/E ratio is preferred while buying a stock.

## 2. Price To Book Value

- i. Computation - Current price of the stock / Book value per share.
- ii. A lower P/BV ratio could mean that the stock is undervalued.
- iii. However, the definition of lower varies from sector to sector.