Why Do We Invest?

Investment is necessary to support your financial needs when you do not earn money.

1. By investing a portion of your income you allow money to grow and work for you.
2. 3 parameters to assess suitability of any investment avenue are –
   i. Return potential
   ii. Safety
   iii. Liquidity
3. Various avenues where money can be invested, are broadly classified into some groups, known as 'Asset Class'. Stocks or Equity shares are most popular class of assets.

What is meant by Stock Selection?

Stock selection is the selection of one or more stock (or shares) based on certain set of criteria in order to maximise the probability of meeting the trading or investment objective.
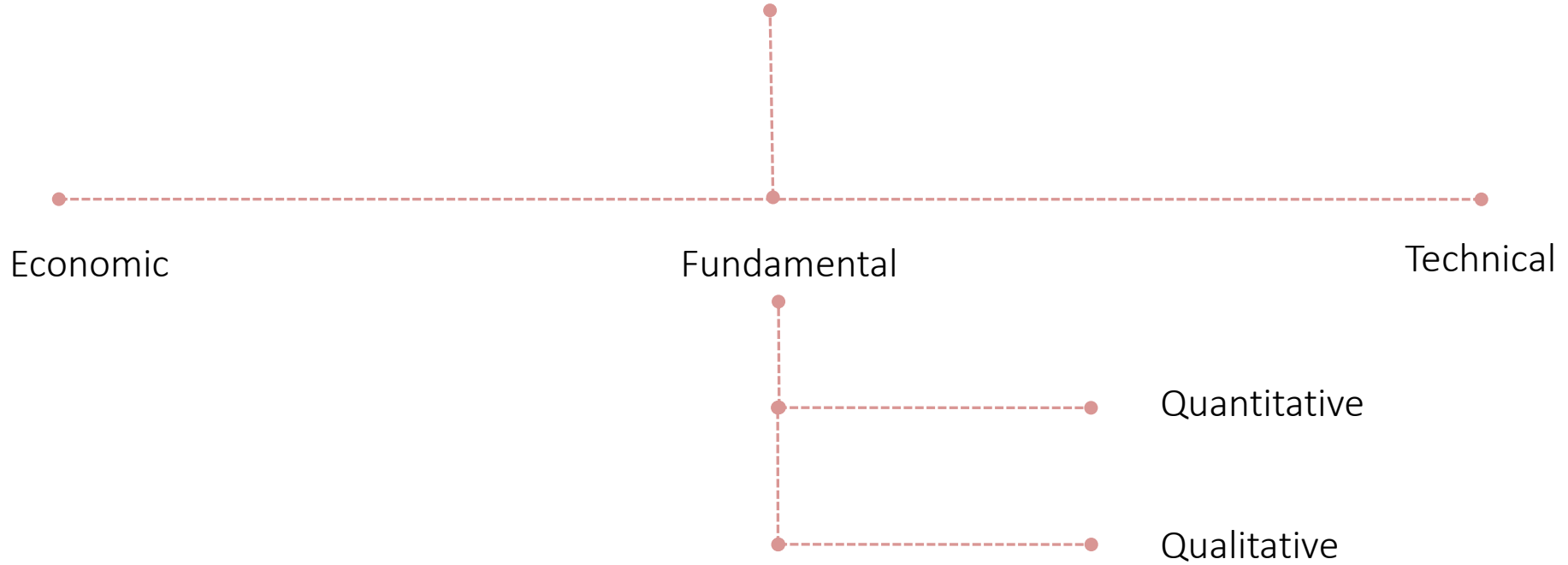
There are more than 5000 stocks available for trading or investment. None can trade or invest in all at the same time.

Hence, one needs to select a manageable number of stocks.

Fundamental and Technical Analysis are the two most preferred tools for stock selection.

Types of Analysis

Economic   Fundamental   Technical

Quantitative

Qualitative

Fundamental Analysis

> Fundamental analysis is a method used to identify the true value of a stock.

1. The current price of a stock may not reflect the actual value of the stock. The stock may be overvalued or undervalued in the market.
2. Fundamental analysis helps investors to study the health of the company, and thus leading to the actual value of the stock.
3. This is done by using various qualitative and quantitative factors.
4. The main purpose of this method is to identify companies that that are fundamentally strong in order to invest in them for the long term.