

Mid Term Report Stock Market Analysis

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23 June 2024

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Preface

This report aims to provide a detailed understanding of stock market , focusing on both technical and fundamental analysis. These methods are essential for making well-informed investment choices. The insights shared in this report are gathered from various sources, offering a well-rounded view of the subject.

Introduction

Investing means putting money into things that can grow over time, helping people save for big goals like retirement or buying a house. Investments can include safe options like bonds or riskier choices like stocks, real estate, and gold. The stock market is a platform where stocks of publicly listed companies are traded. It is vital to the economy as it allows businesses to secure funding and offers investors a chance to grow their assets. Understanding the stock market is important for investors to make smart choices when buying or selling stocks. There are two main ways to evaluate stocks: technical analysis and fundamental analysis. Technical analysis looks at past market data to guess future prices, while fundamental analysis looks at a company's financial health to find out its true value. The stock market has rules set by regulatory bodies to keep things fair. Financial intermediaries like stock brokers and depositories help with buying and selling stocks. Investors use a demat account to hold their stocks electronically. When a private company wants to raise money from the public, it can sell shares through an Initial Public Offering (IPO). After that, these shares are traded in the stock market, with prices changing based on how well the company is doing, economic news, and what investors think. Each method of analysis gives different information and tools, helping investors make better decisions.

Technical Analysis

It's a method traders use to check out investments and spot trading chances by looking at trends from trading activities like price changes and trading volumes. Unlike fundamental analysis that looks into a security's value based on business metrics like sales and earnings, technical analysis focuses only on price and volume data.

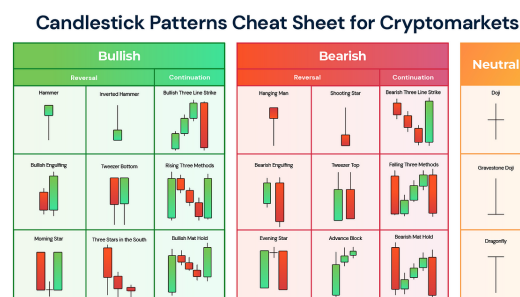
0.1 Basics of Technical Analysis

Well, technical analysts have quite a few tools they use to check out market trends and patterns:

1. **Price Trends:** The main idea here is that prices usually move in trends - up, down, or sideways. And how do analysts see these trends? By studying price charts across different time periods. Analysts keep an eye on trends by checking out how prices move over time - uptrends, downtrends, or sideways ones.
2. **Chart Patterns:** There are different formations in charts that predict potential future price movements based on past patterns like head and shoulders or triangles. Common patterns like head and shoulders are used to foresee future price changes.



(a) Different types of Chart Patterns



(b) Candlestick Pattern

Figure 1: Comparison of Chart Patterns and Candlestick Patterns

3. **Volume and Momentum Indicators:** Volume measures the number of stocks or contracts traded, while indicators like RSI and OBV show the strength of price changes and possible reversals. Looking at trading volume alongside RSI can confirm strength in trend movements.
4. **Support and Resistance Levels:** Support levels stop prices from dropping further, while resistance levels halt upward movement.
5. **Oscillators:** These help identify if a security is overbought or oversold using indicators like MACD. These fluctuate between certain values identifying overbought or oversold conditions.
6. **Candlestick Patterns:** Candlestick charts show open, high, low, close prices over a time period helping predict market reversals.
7. **Moving Averages:** These smooth out price data helping identify underlying trends.
8. **Support and Resistance Levels:** They pinpoint where securities find buying or selling interest.

0.2 Advantages of Technical Analysis

0.2.1 Spotting Trends and Patterns

Technical analysis is all about checking out price trends and patterns in the stock market. By looking at past prices and trading volumes, analysts can guess what might happen next. This helps decide when to buy or sell their stocks.

0.2.2 Understanding Market Psychology

Stock Market also depends on what gut feeling the people have about a particular stock , that's their behaviour towards the market how they react to change in the market. Buying and Selling is more of a guys psychological test when there is some sudden change in the market , whether to hold/buy/sell the stock.

0.2.3 Short-term Traders

Technical analysis works well for people who trade for short periods, like day traders or swing traders. They use charts and indicators to make quick decisions based on real-time data.

0.2.4 Works Across Different Markets

The rules of technical analysis can be used in all sorts of markets - stocks, commodities, currencies, even cryptocurrencies. This makes it super handy for traders in different areas.

0.2.5 Visual Aid

Using charts and graphics makes it easier to see what's going on. Traders can quickly identify patterns like head and shoulders or candlestick shapes which helps them make faster choices.

0.2.6 Easy Access

There are lots of tools available that make technical analysis simple, even for beginners. These tools do automated analysis and create charts, so you don't need to be an expert.

0.3 Limitations of Technical Analysis

Different analysts might look at the same chart and come up with different predictions because it's a bit subjective. Many indicators in technical analysis look at old data, which might not be great at predicting the future. Sometimes this means missing out on good entry or exit points in trading. Technical analysis often focuses only on price and volume numbers without considering other important company information like earnings or overall financial health. This could lead to missing out on key details for long-term investing. Unexpected things like big news or events can shake up stock prices - but technical analysis doesn't always take these into account, which could lead to missed opportunities. Relying too much on past data alone might not always work out well in markets that change fast. The saying "history doesn't repeat itself" comes to mind! With all the different indicators and techniques out there, it can be overwhelming for new traders. Too much complexity might leave traders stuck without being able to make a decision.

0.4 Conclusion

Technical analysis is pretty handy for seeing trends and using visuals to analyze markets; it's got its drawbacks too. To get a full picture of the market and make smart trading decisions, it's good to use technical analysis along with other types of analysis like fundamental analysis.

Fundamental Analysis

Fundamental Analysis, which focuses on financial statements, management quality, competitive advantages, and the market environment. By looking into these aspects, investors can make smarter decisions about stocks being either undervalued or overvalued also the mindset of an investor, it's vital to be patient and detailed in fundamental analysis. Investors need to think long-term rather than getting caught up in short market changes. This analysis is split into two main factors.

On one hand, its the Qualitative Factors like management quality, business model, competition, brand strength, and market position. It involves more subjective judgment and needs a deep industry and company understanding whereas in Quantitative Factors there are numbers found in financial statements like revenue, earnings, assets, liabilities, and various ratios.

0.5 Quantitative Factors

0.5.1 Reading Annual Report of a Company

Reading the annual report of a company provides a complete rundown of the company's performance over the year with financial statements and management's insight. Key parts include Management's Discussion and Analysis (MD&A), Financial Statements including balance sheet and income statement.

0.5.2 The Profit and Loss (P&L) Statement

The Profit and Loss (P&L) statement which shows revenues, costs & expenses over a certain time. It covers Revenue (or Sales), Cost of Goods Sold (COGS), Operating Expenses, Operating Income & Net Income showing how profitable a company is.

0.5.3 Balance Sheet Statement

Balance Sheet Statement offers a snapshot of a company's financial status at a single point in time. It consists of Assets representing what's owned by the company; Liabilities being obligations; Shareholders' Equity as the owner's claim; Current Assets that can be liquidated within a year; Non-Current Assets like long-term investments.

0.5.4 The Cash Flow Statement

The Cash Flow Statement breaking cash inflows and outflows down into operating activities related to core business operations; investing activities like asset purchase; financing activities that show cash inflows from financing actions.

0.5.5 Financial Ratios Analysis

Financial Ratios Analysis it helps compare different numbers for analyzing financial statements better focusing on Profitability Ratios such as Return on Equity (ROE); Leverage Ratios checking debt levels; Valuation Ratios helping understand stock value compared to earnings or book value.

0.5.6 Investment Due Diligence

Investment Due Diligence it involves digging deep into a company before investing checking its business strategy and finances evaluating its competitive edge or "moat."

0.5.7 Equity Research

Equity Research helps identify investment prospects by evaluating companies with limited resources using checklists filtering companies based on crucial criteria. More detailed analysis uses valuation techniques like Valuation Models applying DCF to gauge stock intrinsic value.

0.5.8 Advantages of Fundamental Analysis

Looking at the bigger picture, fundamental analysis focuses on long-term investment moves rather than short-term market ups and downs. By checking out a company's financial health and future prospects, you can make smart choices with a long-term view in mind. Fundamental analysis takes you through financial statements like balance sheets, income statements, and cash flow statements. This gives you a full picture of how efficient the company is running, how profitable it is, and how stable its finances are. It helps spot companies with strong leadership, competitive edges (like patents or killer brands), and solid business models. These factors lay the groundwork for steady returns over time. Bringing in some numbers talk - fundamental analysis uses metrics like price-to-earnings (P/E) ratio, price-to-book (P/B) ratio, and dividend yield. These metrics give you an idea if a stock is priced right compared to its earnings, book value, or dividends.

0.5.9 Limitations of Fundamental Analysis

Fundamental analysis is known for digging deep into stocks using financial metrics and business fundamentals. One big issue is getting accurate information on time. Investors need those financial statements as soon as possible, but any mistakes or delays can mess up the whole analysis. Also, fundamental analysis might not account for sudden changes in the market or external factors like economic shifts, political events, or new regulations. These

things can quickly switch up how people feel about a stock, impacting its value beyond just the numbers.

On top of that, understanding fundamental analysis takes a lot of know-how and time. Judging things like management skills, competitive edge, and industry trends involves personal opinions that can differ from one analyst to another. Plus, this method focuses on the long term which might not match short-term market moves or quick trades, causing investors to miss out.

Lastly, the efficient market hypothesis says all info is already in stock prices. This makes it tough for fundamental analysts to always spot undervalued or overvalued stocks before everyone else. Nonetheless, despite these challenges, fundamental analysis remains a key tool for long-term investors looking to make solid decisions based on thorough company assessments.

Stock Market Analysis Revised POA

Deadlines

- **Week 5** - Futures and Options theory
- **Week 6** - Investment Management
- **Week 7** - Strategies for Trading
- **Week 8** - Trading Strategies in Emerging Markets Specialization
- **EndTerm** report

Resources

- *Investopedia, Zerodha Varsity Modules*
- *The Complete guide to Trading by CFI (book)*
- *Investment Management course on coursera*