IARJSET

ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

Vol. 8, Issue 10, October 2021

DOI: 10.17148/IARJSET.2021.81031

Fundamental & Technical Analysis of an Investor's Portfolio

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Abstract: The investor is an important stakeholder who invest in a company. Generally the investors invest as per their predictions of the market which means either bullish or bearish predictions.The investors understands that the relationship between risk & return is a direct one , the higher the risk higher the return , the lower the risk the lower the return . The investors can be categorized based on their risk taking capacities The investors before investing in the market do a proper analysis of the companies and decide where to invest . The investors now a days rather than investing in single securities end up building their own portfolios using various assets.The portfolio generally comprises of multiple assets such as shares , debentures , bonds , exchange traded funds , derivatives , depository receipts , fixed deposits , mutual funds ,etc .For doing the analysis the investor ends up having a fundamental approach and a technical approach .Fundamental approach related to the use of bas parameters such as ratios , returns , risk to prepare and evaluate a portfolio .Technical analysis is a real time analysis which gives the investor an insight about the market conditions using various charts , patterns , theories ,etc . Technical analysis can be explained with the help of Dow Jones Theory , Elliot Wave Theory , Efficient Market Hypothesis . Technical analysis is a point of study which many experts use to ensure getting a transparency in the portfolios

Keywords: Portfolios , Risk , Fundamental & Technical analysis

1. INTRODUCTION

1.1 Investor

An investor is any person or other entity (such as a firm or mutual fund) who commits capital with the expectation of receiving financial returns. Investors rely on different financial instruments to earn a rate of return and accomplish important financial objectives like building retirement savings, funding a college education, or merely accumulating additional wealth over time.

A wide variety of investment vehicles exist to accomplish goals, including (but not limited to) stocks, bonds, commodities, mutual funds, exchange-traded funds (ETFs), options, futures, foreign exchange, gold, silver, retirement plans, and real estate. Investors can analyze opportunities from different angles, and generally prefer to minimize risk while maximizing returns.

1.2 Portfolio Management

Portfolio management is the art and science of selecting and overseeing a group of investments that meet the long-term financial objectives and risk tolerance of a client, a company, or an institution.

1.3 Types of Portfolio

1.3.1 Income portfolio

This type of portfolio emphasises more on securing a steady flow of income from investment avenues. In other words, it is not entirely focused on potential capital appreciation.

1.3.2 Growth portfolio

A growth-oriented portfolio mostly parks money into growth stocks of a company who are in their active growth stage. Typically, growth portfolios are subject to greater risks. This type of portfolio is known for presenting high risk and reward aspects.

3. Value portfolio

Such a portfolio puts money into cheap assets in valuation and focuses on securing bargains in the investment market. When the economy is struggling, and companies are barely surviving, value-oriented investors look for profitable companies whose shares are priced lower than their fair value. When the market revives, value portfolio holders generate substantial earnings.

Investors must note that several factors tend to influence how one decides to build a portfolio**.**

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2. LITERATURE REVIEW

An investor's analysis is a base for the various investor's decision related to their investments in the market .
The investor also needs to understands the relationship between risk and return.
Fundamental analysis will be done with various categories of ratios involved.
These analysis helps an investor to analyse & invest in the international markets.
The fundamental analysis assesses all the factors that have the capability of influencing the value of the security (including macroeconomic factors and organization-specific factors), called as fundamentals, which are nothing but the financial statements, management, competition, business concept, etc. It aims at analysing the economy as a whole, the industry to which it belongs, business environment and the firm itself.
Technical Analysis is used to forecast the price of a share, which says that the price of a share of the company is based on the interaction of demand and supply forces, operating in the marketplace. It is used to forecast the future market price of the stock, as per the past performance statistics of the share. For this purpose, first of all, the changes in the price of the stock are ascertained, to know how the price will change in future.

3. TYPES OF INVESTMENTS

3.1 Savings Accounts

Savings accounts are among the most basic ways to save money. All banks offer them, usually for free. Your money earns interest each month, and you may be able to use the account to write checks or make automatic electronic payments. The federal government insures savings accounts, meaning that your money is extremely secure, even if the bank itself struggles financially.

3.2 Certificates of Deposit

Certificates of deposit are another savings option offered by most banks. CDs are long-term savings accounts into which you place a given sum of money for an agreed-upon time, often five or 10 years. CDs earn more interest than savings accounts, but the money is unavailable to you until the CD reaches the end of its term.

3.3 Stocks as an Investment

Stock is among the most common investment. A share of stock represents ownership of a company. Stockholders can vote on company issues and buy or sell shares through a broker and a stock exchange, which is a marketplace for stocks. Stock is typically volatile, which means its value can rise or fall rapidly. Owning many different stocks can balance out this risk.

3.4 Bonds as an Investment

Bonds are considered a safer investment alternative to stocks for the most part. Governments and corporations issue bonds. The entity represents a promise to repay a loan, which each investor makes when buying the bond, at a predetermined interest rate over a period of time. At the end of the period, the bond issuer pays back the principal, or purchase price, and interest of the bond.

3.5 Mutual Funds as Investments

A mutual fund is an investment product that uses stocks to earn money for a large group of investors. The fund's manager pools money from investors and uses it to buy many stocks. Some mutual fund managers buy and sell shares of stock daily or even hourly. Mutual funds vary in their degree of risk, as well as the cost to investors, who must pay for the fund manager's expertise and efforts. A well-managed mutual fund can provide the benefits of stock investing without as much risk.

3.6 Real Estate Investments

Real estate is another type of investment. While most homeowners hope that their own homes' values will rise, real estate investors buy land or rental property with the expectation of selling it in the future. Rental property provides income from tenants, but also requires management and maintenance. Investing in real estate also makes you responsible for property taxes on the land you own. Real estate investing can be risky since home prices and rental demand are always subject to change.

3.7 Commodities as Investments

Investing in commodities involves predicting the future price of a product or resource. Commodities investors buy futures contracts, which represent the right to buy a commodity, such as crude oil, corn or wheat, for a set price at a given time in the future. If the commodity's price exceeds the amount on the contract, the investment pays off. Global

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supply and demand impact commodity prices, which makes investing in commodities a complex process with many variables.

3.8 Annuities as Investments

Annuities are low-risk investments that require one-time or ongoing payments, and pay out a specified sum. Investors who purchase annuities hope to receive more in payments than they put into the annuity. An annuity may be structured to provide income during retirement, offering a predictable payment for life.

4. RISK & RETURN

4.1 Direct Relationship between Risk and Return

(A) High Risk - High Return

According to this type of relationship, if investor will take more risk, he will get more reward. So, he invested million, it means his risk of loss is million dollar. Suppose, he is earning 10% return. It means, his return is Lakh but he invests more million, it means his risk of loss of money is million. Now, he will get Lakh return.

(B) Low Risk - Low Return

It is also direct relationship between risk and return. If investor decreases investment. It means, he is decreasing his risk of loss, at that time, his return will also decrease.

4.2 Negative Relationship between Risk and Return

(A) High Risk Low Return

Sometime, investor increases investment amount for getting high return but with increasing return, he faces low return because it is nature of that project. There is no benefit to increase investment in such project. Suppose, there are 1,00,000 lotteries in which you will earn the prize of You have bought 50% of total lotteries. But, if you buy 75% of lotteries. Prize will same but at increasing of risk, your return will decrease.

(B) Low Risk High Return

There are some projects, if you invest low amount, you can earn high return. For example, Govt. of India need money. Because, govt. needs this money in emergency and Govt. is giving high return on small investment. If you get this opportunity and invest your money, you will get high return on your small risk of loss of money.

5. STEPS IN FUNDAMENTAL ANALYSIS

- Step 1: Economic and Market Analysis Structure of the Industry: competition and market dynamics Products being produced: what the products do, technology, substitute products Firm cost structure and revenue composition Firm Strategy: what are the firm's stated objectives for future growth Regulatory Environment
- Step 2: Analysis of Financial Statements Balance sheet: Price to book value of equity; net market value of assets Income statement: earnings, free cash flow, revenues, EVA Cash flow statement: Operating, financing and investing Other factors not included in the financial statements: industry and government publications
- Step 3: Forecasting relevant payoffs What are the important 'value drivers'? What are 'best guess' forecasts of the value drivers? What factors could act to undermine the forecasts?
- Step 4: Formulating a security value Specifying the approach to valuation Applying the valuation model to the available data from steps 1-4
- Step 5: Making a recommendation For an outside investor, recommend buy, sell or hold. Stating qualifications to the forecast

6. FUNDAMENTALS OF TECHNICAL ANALYSIS

- **The Stock market reflects all known information** The 'known information' here referred is the information which is disclosed and is publicly available. In addition, technical analysts do not approve financial information as accountable for analysis. All entities like Return on equity ratio, price-to-earning ratio(P/E) and shareholder equity are not considered as they come under the fundamental analysis
- **Predicting the Price movement** As it is known that price never stays static and has a tendency to move randomly without any fixed pattern but one theory proves that movement of price can be predicted and charted as price movement tends to repeat itself sometimes or move in a known trend. Once you learn to understand trends, money-making becomes quite easy. When the tough part becomes easy, it becomes a child's play to get good at it and become profitable after some time.
- **Repetition of History** This theory reveals that the history is bound to be repeated and the condition holds true for the stock market too. This property makes the investors and market players react in the same manner as they

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reacted in the past because of re-occurrence of the events. So, Technical analysts gain from these reactions from the investors to understand the effect of the reaction on the market last time around and use it when the event re-occurs.

- **Short-term focus** Technical analysis of stocks focuses on a short period of time ranging from a month to a minute also. Fundamental analysis focuses on long-term investment but technical analysis relies on short-term investment. Technical analysis proves best for people who look for making profits in a small amount of time or who constantly buy and sell stocks.
- **Usage of charts and graphs** Technical analysis of stocks uses charts and graphs to read spot price trends. A chart is especially used to know about the trend of price movement. Prediction of the current price of a stock and its near future becomes easy to study with the help of graphs. Trends can also be defined and classified according to their duration and types.
- **Uptrends** The upward movement is known as uptrend. This is to be learnt that this upward movement to its high is not an all-time high but the high of the previous day, week or month. The steady high and low price indicates the market's positivity about the stock. It is a clear indication that the stock is on upward trend and is optimal for buying. So, everytime a stock falls investors don't take a chance and let it fall further instead they take a chance and buy it immediately.
- **Downtrends** When the stock prices continue to fall, it is regarded as a downtrend. Peaks and troughs both tend to take a hit during this phase. It means that the analysts consider that the stocks can go down further so it is advised to investors to wait for some time and let the stock recover and as the prices start rising, then sell the stocks. For a short-term investor this is a bad time to invest but for a long-term investor it is optimal moreover we could wait more for the prices to go further down.
- **Horizontal trends** A horizontal trend does not have a fixed trend; only the peaks and troughs remain constant. Traders can profit from horizontal trends in several ways, from looking for major signs of a breakout or breakdown to using stock options to placing stop-loss orders when the price nears resistance levels.
- **Support and Resistance** Support and Resistance are two concepts of price movement involved in the technical analysis of stocks. Support is a price level where a downward trend of price movement is expected to halt. At this point, the price of the falls and the demand of the increases which forms a pattern. Resistance refers to the highest price of a stock it reaches and traders start selling the stocks after which prices start to fall again. Once the field of support and resistance is identified, trading becomes an easy task to carry forward. When the price reaches any of these two points, there are 2 possibilities. First, it may cross the levels and may go upward or downward. Second, bounce back after touching either of the two levels.
- **Trade volume** Volume of trades is an important factor to be considered when performing the technical analysis of stocks. Important information about the market can be accessed through trading volume. If the volume increases simultaneously with the increase in the price of the stock, the trend is probably valid. And, if the volume of trade grows slightly, probably it is due to the reverse trend that is in motion.

7. CONCLUSION

- The investor has various types of investments through which they can build up their own portfolio.
- The investor builds the portfolio based on their risk taking capacity.
- Generally portfolio investors are High Net Worth Investors (HNWI)
- Fundamental analysis helps to understand the returns on the portfolio
- Technical analysis helps to understand the trends and patterns in the stock market.

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