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The Bears & Bulls of Fundamental Analysis Vs Technical Analysis

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Abstract:- In the intriguing realm of the Indian Stock Market, significant fortunes are amassed and aspirations materialize. In the realm of financial markets, two predominant methodologies govern the analysis of markets: fundamental analysis and technical analysis. This discussion aims to delve into the core principles of each approach, elucidate their respective merits and limitations, and underscore the advantages of amalgamating them to form a comprehensive market analysis framework.

- ***Biography of the Author***

I am Vansh Thirani, a high school student from New Delhi, India. Stock Market is something I have a lot of interest in. I am very passionate about building a career in this field and with my continuous learning and self-improving skillset, I am confident enough to excel in this field. This paper can help a lot of young teenagers who aspire to gain knowledge and pursue a career in the field of Stock Market Analysis. Being a teenager myself, I understand how challenging it might be for students to start analysing at first, but I believe after students go through this paper, it might become easier for them to analyse and make investment decisions.

I. INTRODUCTION

Stock analysis primarily comprises fundamental analysis and technical analysis, Fundamental analysis, a pivotal form of stock evaluation, entails examining a company's financial statements, market positioning, and industry viability. Analysts scrutinize earnings, revenue, potential growth, return on equity, and other factors to gauge the intrinsic value of a stock. This method aids in comprehending the long-term potential of the company. On the other hand, technical analysis, another significant approach, concentrates on statistical patterns derived from market activities, such as price fluctuations and trading volume. Instead of delving into a company's fundamental aspects, this method evaluates patterns and trends to anticipate future stock movements. It is notably favoured among traders for devising short-term investment strategies.

II. HISTORY OF INDIAN SHARE MARKET

The history of the Indian share market dates back to 1875 with the establishment of the "Native Share and Stockbroker’s Association", which later evolved into the Bombay Stock Exchange (BSE) and commenced with 318 members. During the nascent stages of the Indian stock market, trading significantly differed from its contemporary operations. The idea of trading shares of various companies was still novel and unfamiliar to the majority of individuals. The history of the Indian stock market commenced with the establishment of the Native Share and Stockbrokers’ Association in Bombay (now Mumbai) in 1875. At that time, trading primarily occurred beneath banyan trees or in coffee houses, where brokers convened to share information and negotiate transactions. These informal gatherings laid the groundwork for more structured trading platforms that would later emerge. As India moved towards independence, the stock market witnessed substantial developments. Following independence from British rule in 1947, India encountered economic challenges, prompting the enactment of The Capital Issues Control Act (CICA) by the government. This act was designed to oversee capital issues and promote equitable practices within the stock market. These pioneering initiatives eventually paved the way for formalized exchanges such as the Bombay Stock Exchange (BSE), established in 1875, ranking it as one of Asia's oldest stock exchanges. Shortly after the BSE, the National Stock Exchange (NSE) commenced operations in 1994.The establishment of regulatory bodies like the Securities and Exchange Board of India (SEBI) further bolstered investor confidence by ensuring transparency, safeguarding investors' interests, and regulating various aspects related to securities markets. Presently, the Indian stock market has made substantial progress since its modest beginnings. With technological advancements and increased participation from domestic and foreign investors, it has become an integral part of India's economy, presenting opportunities for wealth creation and investment growth.

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III. INDIAN FINANCIAL MARKETS – SOME KEY STATISTICS

The India Market Capitalization accounted for 4,939.816 USD bn in May 2024, compared with a percentage of 4,872.465 USD bn in the previous. The data reached an all-time high of 4,939.816 USD bn in May 2024 and a record low of 55.322 USD bn in Apr 1993. In FY2024, the Indian equity market witnessed a phenomenal performance as benchmark indices soared to unprecedented all-time highs, with the Nifty and Sensex scaling milestones of 22,526.60 and 74,245.17 mark respectively. Indian equity emerged as one of the best-performing markets in the last four years. Indian Market ended time-wise correction in March 2023 last year and then started to rally & continue its strong momentum till now. On the other hand, broader indices outperformed; the NSE Midcap 100 and NSE Small cap 250 advanced around 60.06% and 63.07%, respectively, in FY2024 till now. India's market cap reached $4.5 trillion as of February 2024. India's market cap is currently the fifth largest globally ($4.5 trillion) and is likely to hit $10 trillion by 2030.

Today, there are about 2,266 stocks listed on the NSE. However, out of these, 76 listed stocks on the NSE are not available for trading as of December 31, 2023. A total of 5,309 listed stocks on BSE as of January 24, 2024. How does one know which stock to buy or sell? What investment strategies to adopt in a bearish market and in a bullish market? What are the key factors for stock analysis?

IV. WHAT IS STOCK ANALYSIS?

Stock analysis entails the thorough evaluation of a specific trading instrument, an investment sector, or the market as a whole. Its purpose is to discern the future activity of the instrument, sector, or market. This process aids investors and traders in making well-informed decisions regarding buying and selling. By scrutinizing past and present data, they seek to gain an advantage in the market. The concept of stock analysis hinges on the belief that existing market information can determine the intrinsic value of a stock. Investors utilize various methods, such as examining financial statements, stock price movements, market indicators, and industry trends, to guide their investment decisions. Historical data is a key element in this strategy. To illustrate, analysts may assess a company's stock based on its financial performance, striving to comprehend how similarly performing companies fared in the past.

V. FUNDAMENTAL ANALYSIS

Fundamental analysis involves a comprehensive examination of a company's underlying value, analogous to meticulously peeling back the layers of an onion to uncover its core. This process entails assessing various financial statements and metrics to ascertain the intrinsic value of an asset. For instance, the scrutiny of metrics such as the price-to-earnings (P/E) ratio, price-to-sales (P/S) ratio, and price-to-book value (P/BV) ratio enables investors to determine whether an asset is undervalued or overvalued. The history of fundamental analysis as a trading mechanism began with Benjamin Graham in 1928. Graham published his first book, Security Analysis in 1934. This book defined the framework of Value Investment and is now in its fifth edition.

Key factors including earnings, debt, equity, earnings per share (EPS), market capitalization, sales figures, as well as broader economic conditions and company management, are all pivotal aspects considered in fundamental analysis. Fundamental analysis is a comprehensive method for evaluating a business. When an investor plans to invest in a business for the long term (e.g., 3-5 years), it is crucial to understand the business from multiple angles. Investors must ignore the daily short-term fluctuations in stock prices and focus on the company's core performance. Over time, the stock prices of fundamentally strong companies usually rise, generating wealth for their investors. There are numerous examples of such companies in the Indian market. Notable examples include Infosys Limited, TCS Limited, Page Industries, Eicher Motors, Bosch India, Nestle India, and TTK Prestige. Each of these companies has delivered an average compounded annual growth rate (CAGR) of over 20% year after year for more than a decade. To put this in perspective, at a 20% CAGR, an investor would double their money in approximately 3.5 years. The higher the CAGR, the faster the wealth creation process. For instance, Bosch India Limited has achieved nearly a 30% CAGR. This illustrates the significant and rapid wealth creation possible when investing in fundamentally strong companies. Long-term charts of Bosch India, Eicher Motors, and TCS Limited that inspire reflection on long-term wealth creation.

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Fig 1: Long Term Chart of Bosch India

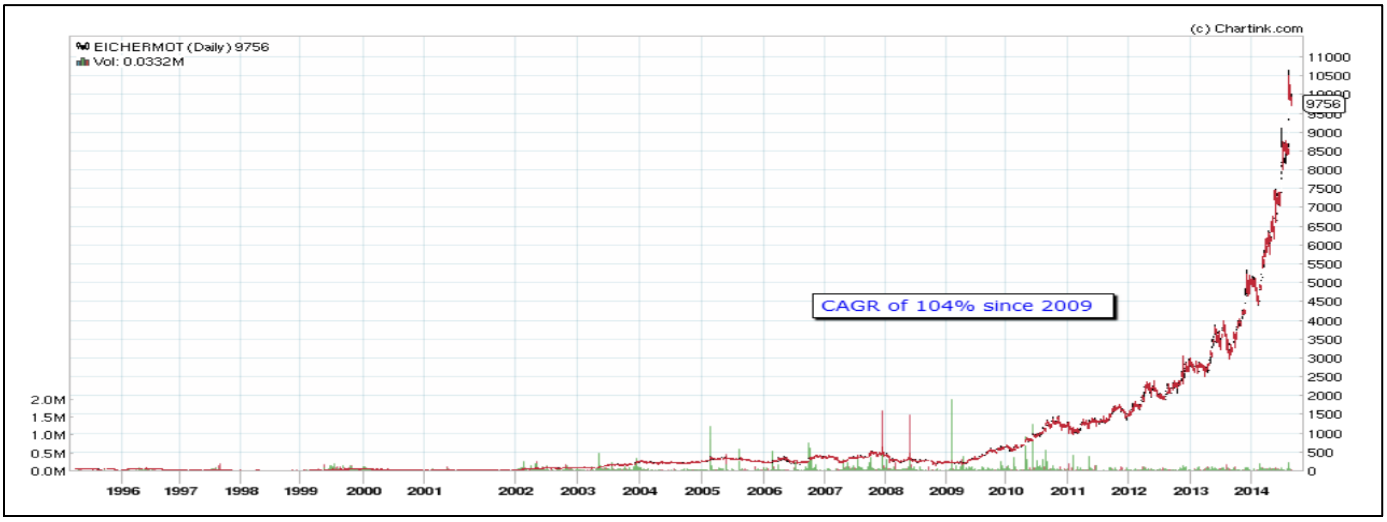

Fig 2: Long Term Chart of Eicher India

Fig 3: Long Term Chart of TCS

- *You Might Suspect Bias as I've Selectively Chosen to Display Impressive Charts. Here are the Long-Term Charts of Suzlon Energy, Reliance Power and Sterling Biotech:*

Fig 4: Long term Chart of Suzlon

Fig 5: Long Term Chart

Fig 6: Long Term Chart of Bosch India

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These are just three examples of wealth-detracting stocks among the many you may encounter in the Indian markets. The crucial aspect is differentiating between investment-grade companies that create wealth and those that diminish it. Investment-grade companies possess common attributes that distinguish them, whereas wealth-detracting companies display recognizable traits to astute investors. Fundamental analysis instils confidence in long-term investments by identifying the characteristics of companies that create wealth.

VI. TOOLS OF FUNDAMENTAL ANALYSIS

➢ *The Company's Annual Report –*

It provides all necessary information for fundamental analysis and can be freely downloaded from the company's website. The Annual Report (AR) of a company serves as an official communication to its investors and stakeholders, offering the most comprehensive source of company-related information. Hence, it should be the primary resource for investors seeking insights into the company. The report is structured into multiple sections, each focusing on different facets of the business. The management discussion and analysis section stand out as a critical component of the AR. It offers the management's insights into the broader economy, their assessment of the industry's performance over the past year (including achievements and obstacles), and their projections for the upcoming year.

The Annual Report includes 3 financial statements: the Profit & Loss Statement, Balance Sheet, and Cash Flow Statement. The Profit & Loss Statement shows the financial performance over a specific period. It provides information on:

- Tax and depreciation
- The company's revenue for the given period (yearly or quarterly)
- The earnings per share (EPS) number
- The expenses incurred to generate the revenue

The balance sheet provides details about a company's assets, liabilities, and shareholders' equity. It is prepared on an accrual basis, encompassing financial information from the company's inception. While the Profit and Loss statement describes the company's performance in a specific financial year, the balance sheet illustrates the company's financial evolution over time. The Cash Flow statement holds crucial financial information, as it discloses the actual cash generated by the company. The net cash flow comprises cash from operating activities, investing activities, and financing activities.

- **Industry-related data** – It is essential to assess how the company compares within its industry. Basic industry data is readily available for free on industry association websites.
- **Access to the news** – Keeping up with daily news is crucial to stay informed about industry developments and updates related to the company of interest. Reliable sources such as reputable business newspapers or tools like Google Alert can help you stay current with the latest news.

➢ *Qualitative Aspects –*

- *Some of the Qualitative Aspects Include:*

✓ Management background – Includes their qualifications, experience, education, and any legal history that may affect their ability to manage the business effectively.
✓ Business ethics – Focuses on the integrity of management, assessing involvement in unethical practices like scams or bribery.
✓ Corporate governance – Evaluates the structure of the board of directors, organizational transparency, and adherence to governance standards.
✓ Treatment of minority shareholders – Considers how management prioritizes the interests of minority shareholders in corporate decisions.
✓ Share transactions – Examines whether management engages in buying or selling company shares through undisclosed promoter groups.
✓ Related party transactions – Reviews financial transactions benefiting entities related to promoters, potentially at the expense of shareholder funds.
✓ Promoter salaries – Considers whether management compensates themselves excessively, often tied to company profits.
✓ Stock market manipulation – Observes unusual price movements, especially during significant promoter transactions.
✓ Major shareholders – Identifies significant shareholders owning over 1% of the company's outstanding shares.
✓ Political affiliations – Assesses whether the company or its promoters maintain close ties with political parties and if political support is crucial for business operations.
✓ Promoter lifestyle – Considers whether promoters exhibit ostentatious displays of wealth or a lavish lifestyle.

➢ *Some of the Quantitative Aspects Include:*

- Profitability and its growth
- Margins and its growth
- Earnings and its growth
- Matters related to expenses
- Operating efficiency
- Pricing power
- Matters related to taxes
- Dividends payout
- Cash flow from various activities
- Debt – both short term and long term
- Working capital management
- Asset growth
- Investments
- Financial Ratios

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VII. FINANCIAL RATIOS

A standard financial ratio uses data from financial statements to calculate its value. Financial ratios can be categorized into various groups, namely:

A. Profitability Ratios –

Profitability ratios assist analysts in assessing the company's ability to generate profits, indicating its competitiveness and management effectiveness. Profits are crucial for business expansion and dividend payments to shareholders, making profitability a critical metric to evaluate. Profitability ratios: Notably consist of

- **EBITDA Margin -** The Earnings before Interest Tax Depreciation & Amortisation margin reflects management efficiency by indicating how effectively the company's operating model operates. It measures the company's profitability at an operating level as a percentage. Comparing different company's EBITDA margin provides insight into how efficiently management handles expenses.
- ✓ EBITDA = [Operating Revenues – Operating Expense]
- ✓ EBIDTA Margin = EBITDA / [Total Revenue – Other Income]
- **PAT Margin -** The Profit After Tax margin is calculated at the final profitability level, encompassing all expenses including depreciation, finance costs, and tax expenses. It provides a comprehensive view of the company's profitability. PAT Margin = [PAT/Total Revenues]
- **Return on Equity -** Return on Equity (ROE) is a critical ratio that helps investors assess how effectively a company generates profits from shareholder investments. It measures the return earned for each unit of capital invested, reflecting the company's efficiency in generating shareholder profits. A higher RoE signifies better returns for shareholders, making it a key metric for identifying attractive investment opportunities in a company. Additionally, it is important to highlight that a high ROE indicates substantial cash generation within the company, leading to decreased dependence on external funding. Thus, a higher ROE signifies excellent management performance.
- ✓ ROE = [Net Profit / Shareholders Equity X 100]
- **Return on Capital Employed -** Return on Capital Employed measures a company's profitability relative to the total capital it employs.
- ✓ ROCE = [Profit before Interest & Taxes / Overall Capital Employed]

B. Operating Ratios

Operating Ratios, also known as Activity Ratios, gauge the efficiency with which a business converts its assets (both current and noncurrent) into revenues. These ratios provide insights into the effectiveness of company management, which is why they are occasionally referred to as Management Ratios.

➢ *Leverage Ratios*

Leverage ratios, also known as solvency or gearing ratios, assess the company's capacity to sustain its daily operations over the long term. These ratios gauge how much debt the company utilizes to fund its growth. It's crucial for a company to meet its financial obligations and expenses to maintain operational continuity. Solvency ratios provide insights into the company's long-term sustainability by evaluating its ability to manage obligations effectively.

- **Interest Coverage Ratio**: The interest coverage ratio indicates how much income a company earns compared to its interest expenses. This ratio helps assess the company's ability to comfortably cover its interest payments.
  Interest Coverage Ratio = [Earnings before Interest and Tax / Interest Payment]
- **Debt to Equity Ratio -** It measures the proportion of capitals of total debt to total equity. A ratio of 1 signifies an equal amount of debt and equity capital. A higher ratio indicates higher leverage, requiring caution. Conversely, a ratio lower than 1 indicates a larger equity base relative to debt.
  Debt to Equity Ratio = [Total Debt/Total Equity]
- **Debt to Asset Ratio -** This ratio provides insight into the company's asset financing structure by indicating the proportion of total assets financed through debt capital.
  Debt to Asset Ratio = Total Debt / Total Assets
- **Financial Leverage Ratios -** It indicates the extent to which assets are funded by equity Financial Leverage Ratio = Average Total Asset / Average Total Equity.
- **Fixed Assets Turnover -** The ratio measures the revenue generated relative to the investment in fixed assets, indicating how efficiently the company utilizes its plant and equipment. Fixed assets encompass property, plant, and equipment. A higher ratio signifies effective and efficient management of fixed assets by the company.
  Fixed Assets Turnover = Operating Revenues / Total Average Asset
- **Working Capital Turnover -** Working capital is the capital necessary for a firm to conduct its daily operations. Working Capital = Current Assets – Current Liabilities.
- **Total Assets Turnover -** It signifies the company's ability to generate revenue based on its assets. A higher total asset turnover ratio, compared to historical and competitor data, indicates that the company efficiently utilises its assets to generate greater sales.
  Total Asset Turnover = Operating Revenue / Average Total Assets

➢ *Valuation Ratios-*

Valuation ratios compare a company's stock price either to its profitability or its overall value, providing insight into whether the stock is trading at a perceived high or low value. These ratios help analysts assess whether the current share price reflects the benefits of owning the stock. In essence, valuation ratios gauge the cost of a security relative to its investment potential.

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- **Price to Sales -** This ratio compares the company's stock price with its sales per share.
  Price to sales ratio = Current Share Price / Sales per Share
- **Price to Book Value -**A bigger ratio suggests that the stock is more expensive. It could indicate that the firm is overvalued compared to its equity or book value. Conversely, a lower ratio might suggest that the company is undervalued relative to its equity or book value. Book Value = [Share Capital + Reserves / Total Number of shares]
  Price to Book Value Ratio = Price/Book Value
- **Price to Earnings -** The P/E ratio indicates how much market participants are willing to pay for each rupee of profit generated by the company.
  Price to Earnings ratio = Current Stock Price/Earnings per share

VIII. TECHNICAL ANALYSIS

Technical Analysis is a methodical approach used to detect trading prospects in the market by analyzing the actions of market participants, which are visualized in stock charts. Over time, distinct patterns emerge in these charts, each conveying specific information. The role of a technical analyst is to identify these patterns and formulate interpretations based on them. Similar to any research methodology, technical analysis is built upon a set of assumptions. As a practitioner of technical analysis, it is essential to trade the markets while keeping these assumptions in mind. We will delve deeper into these assumptions as we progress further.

A. Chart Types

- **Line Chart -**It is the simplest type of chart, constructed using only one data point to represent the chart. A line chart is created by plotting the closing prices of a stock or index. A dot is placed for each closing price, and these dots are connected by a line to visualize the price trend.
- **Bar Chart -**The bar chart is more versatile compared to the line chart. It displays four price variables: open, high, low, and close. A bar on the chart consists of three components:

✓ The central line: It represents the range from the highest price (top of the bar) to the lowest price (bottom of the bar) during the period.
✓ The left mark or tick: This indicates the opening price.
✓ The right mark or tick: This indicates the closing price.

- **Candlesticks:** In a candlestick chart, candles are categorized as either bullish or bearish:
- A candle is bullish if the closing price is higher than the opening price.
- A candle is bearish if the closing price is lower than the opening price.

Fig 7: Candlestick Chart

Furthermore, a long-bodied candle indicates significant buying or selling activity, while a short-bodied candle signifies lower trading activity and consequently less price movement.

B. Single Candlestick Patterns

➢ *The Marubozu –*

A bullish marubozu is a candlestick pattern characterized by no upper or lower shadow, only a solid real body. It signals bullish sentiment in the market.

- Consider buying near the closing price of a bullish marubozu.
- Set the low of the marubozu as the stop loss.

A bearish marubozu is a candlestick pattern characterized by no upper or lower shadow, only a solid real body, indicating bearish sentiment in the market.

- Consider selling near the closing price of a bearish marubozu.
- Set the high of the marubozu as the stop loss.

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Fig 8: Bullish Marubozu

In the chart above, a bullish marubozu has been highlighted. A trader willing to take risks might have entered a buy trade on the same day near the closing price, but would have incurred a loss the following day. However, a cautious trader would have refrained from buying the stock altogether because the next day's candle was red. According to the rule, trades should be initiated on blue candle days and avoided on red candle days.

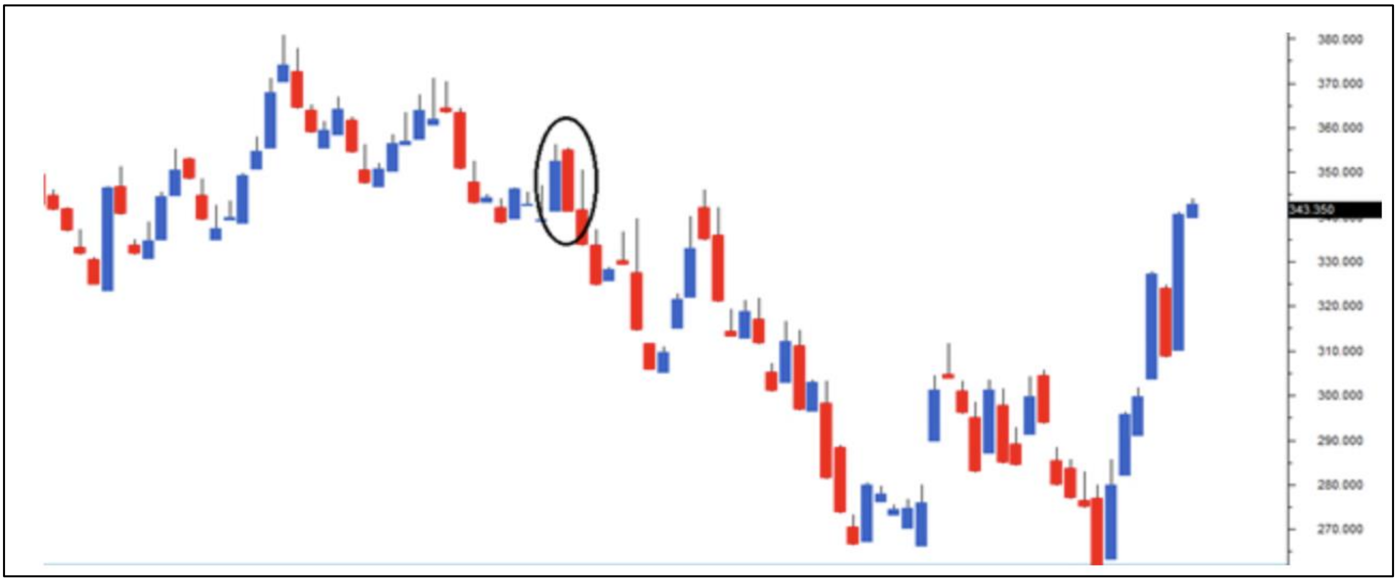

Fig 9: Bearish Marubozu

In the chart above (BPCL Limited), the highlighted candle represents a bearish marubozu. This candle is characterized by its lack of upper and lower shadows.

The Spinning Top - Unlike the marubozu, a spinning top does not provide explicit trading signals for entry or exit points. However, it offers valuable insights into the current market sentiment. The color of the spinning top is insignificant; what matters is that the open and close prices are very close to each other. Spinning tops indicate market indecision, where both bulls and bears exert equal influence. A spinning top at the top of a rally suggests that bulls might be pausing before resuming the uptrend, or bears could be preparing to reverse the trend. In either scenario, traders should exercise caution. If considering a buy position, it's advisable to purchase only half the intended quantity and await market movement confirmation. Conversely, a spinning top at the bottom of a rally suggests bears may pause before continuing the downtrend, or bulls could be preparing to reverse the trend upward. In both cases, traders should proceed cautiously. If planning to buy, it's prudent to start with half the intended quantity and monitor market dynamics closely.

Fig 10: Spinning Top Candle (Pic Credit Zerodha)

A spinning top candle, as depicted above, features a small real body with upper and lower shadows that are nearly equal in length.

Fig 11: Spinning Top in an Downtrend

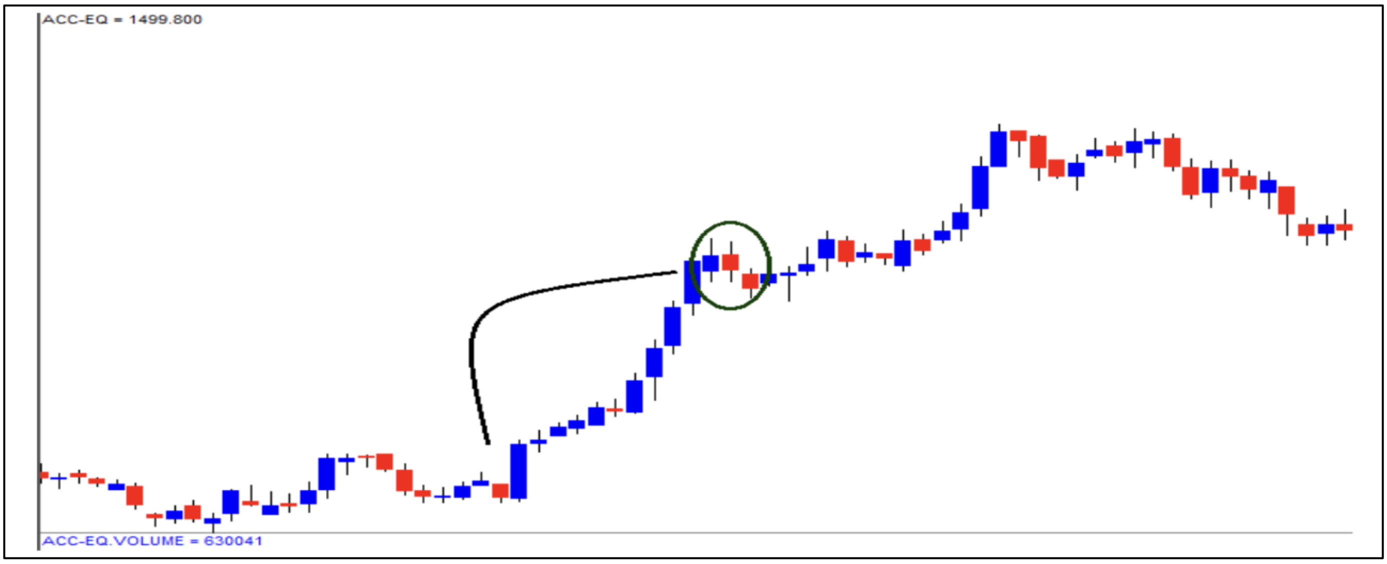

Fig 12: Spinning Top in an Uptrend

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C. The Dojis

It indicates that the open price is equal to the close price, resulting in a virtually non-existent real body. Doji resembles spinning tops in their appearance, and both signify market indecision. According to the definition, a Doji should not have a real body, but in practice, a very narrow body may sometimes be observed and is considered acceptable.

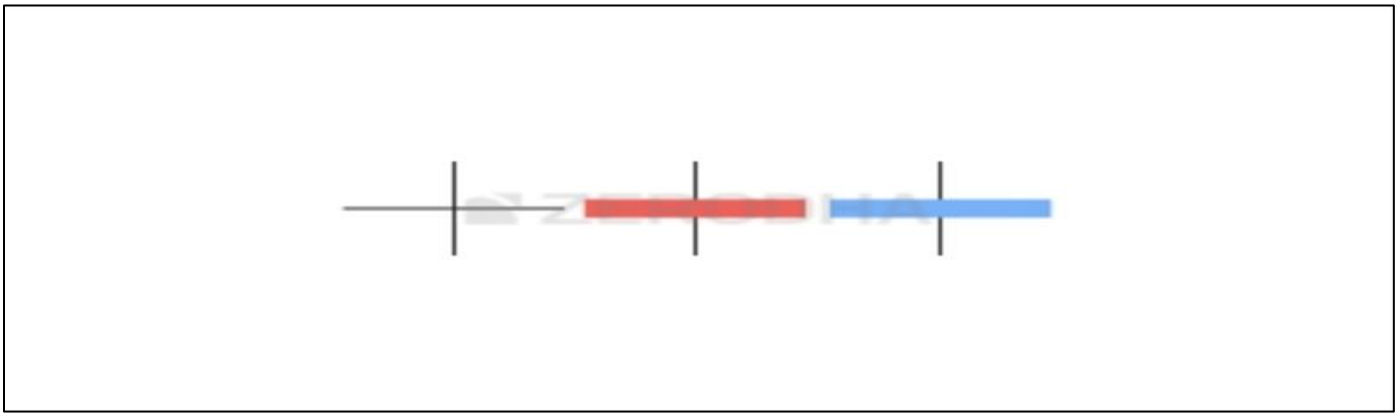

Fig 13: The Doji

Fig 14: The Doji in an Downtrend

Fig 15: The Doji in an Uptrend

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D. Paper Umbrella

A paper umbrella encompasses two trend reversal patterns known as the hanging man and the hammer. The hanging man pattern is bearish, while the hammer pattern is relatively bullish. A paper umbrella is identified by a long lower shadow and a small real body. The lower shadow of a paper umbrella should be significantly longer than its real body, maintaining a specific 'shadow to real body' ratio. Specifically, the lower shadow should be at least twice the length of the real body.

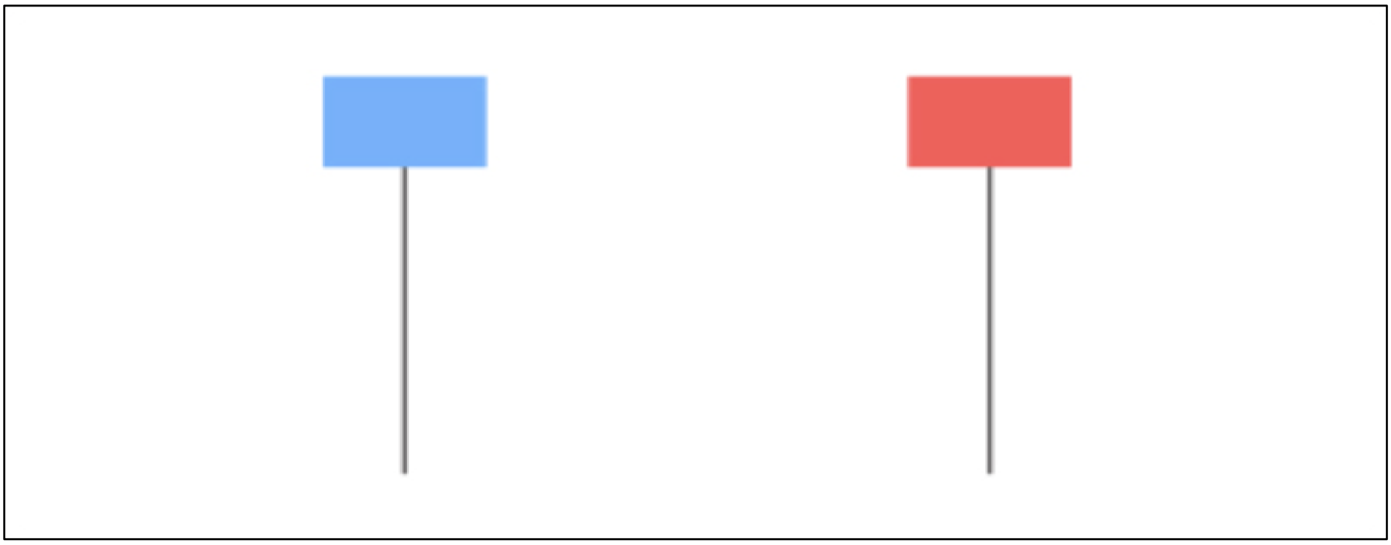

Fig 16: The Hammer Formation

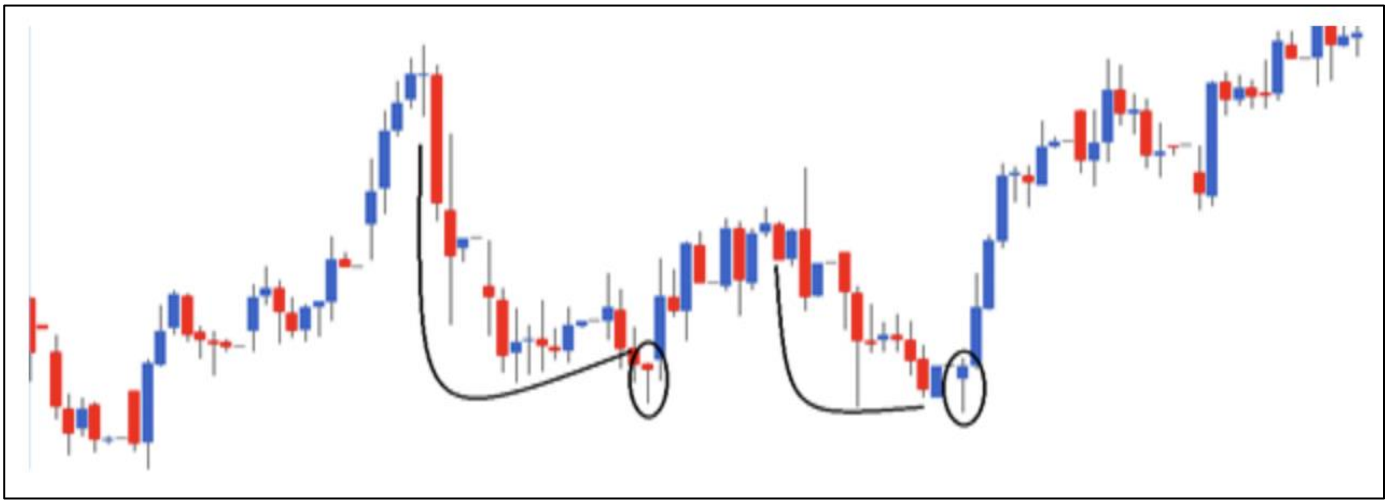

Fig 17: Two Hammers Formed at the Bottom of a Downtrend

A hammer can appear in any colour, although a blue-coloured real body can provide a bit more reassurance. What truly matters is that the hammer meets the 'shadow to real body' ratio criterion. The preceding trend before the formation of a hammer should ideally be a downtrend. A hammer is considered a bullish pattern, signalling potential buying opportunities when it forms. Traders typically use the low of the hammer as a stop-loss level for their trades.

E. The Hanging Man –

If a paper umbrella appears at the peak of a trend, it is referred to as a Hanging Man. The bearish hanging man is a single candlestick pattern indicating a potential reversal at the top of the market. It signals that a market high has potentially been reached. The hanging man pattern is identified only if it follows an uptrend. Given its occurrence after a peak, the bearish hanging man suggests impending selling pressure. A hanging man can appear in any colour, with the specific colour being less relevant compared to meeting the 'shadow to real body' ratio criteria. The preceding trend for a hanging man should ideally be an uptrend, as depicted by the upward slope in the chart below.

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Fig 18: Preceding Trend for a Hanging Man

F. The Shooting Star

It includes an extended upper projection that is at least double the length of the actual body. The colour of the body is not critical, although the pattern tends to be slightly more reliable if the real body is red. The longer the upper wick, the more bearish the pattern is considered. Both the shooting star and the paper umbrella share a small real body as a common characteristic. A shooting star should not have a lower shadow. However, a small lower shadow, as observed in the chart above, is generally acceptable. The shooting star is identified as a bearish pattern, thus it typically follows a prior bullish trend.

Fig 19: The Shooting Star

G. Multiple Candlestick Patterns

The Engulfing Pattern **-** It requires two trading sessions to develop. In a typical one, the first day (P1) shows a small candle, followed by a relatively longer candle on the second day (P2), which appears to engulf the first day's candle. When this pattern occurs at the bottom of a downtrend, it is known as the "Bullish Engulfing" pattern. Conversely, when it appears at the top of an uptrend, it is termed the "Bearish Engulfing" pattern.

The bullish engulfing pattern, specifically, is a two-candlestick pattern observed at the end of a downtrend. As implied by its name, this pattern signals a bullish reversal and suggests a potential opportunity to initiate a long position. The chart below highlights a two-day bullish engulfing pattern. The key conditions for identifying this pattern are:

- The prior trend should be a downtrend.
- The first day (P1) should feature a red candle, confirming bearish sentiment.
- The second day (P2) should have a blue candle that is sufficiently long to completely engulf the red candle from the previous day.

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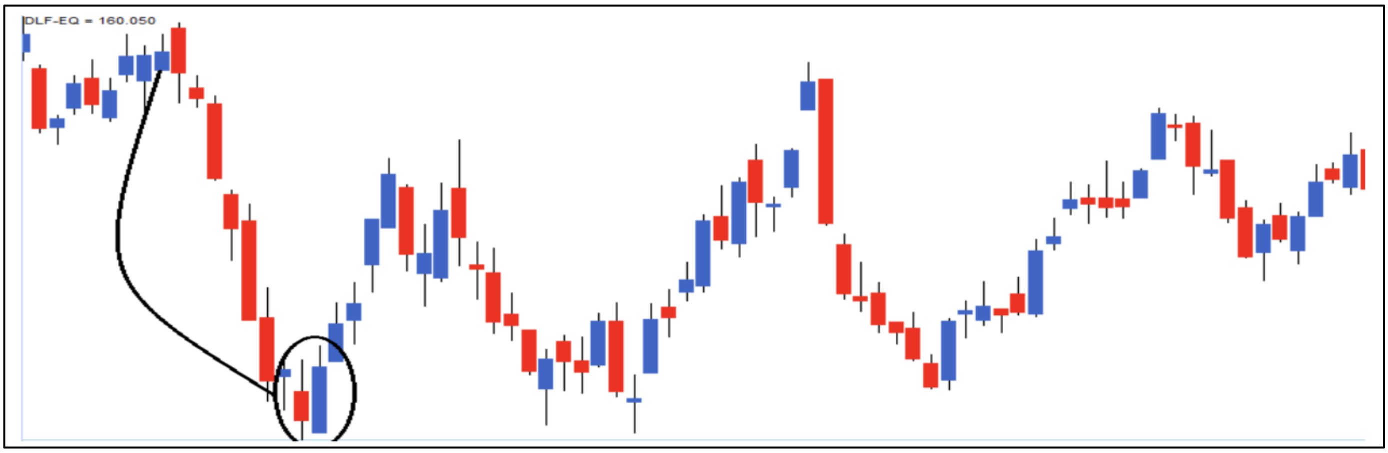

Fig 20: Two Candlestick Pattern

The bearish engulfing pattern is a two-candlestick pattern observed at the peak of an uptrend, indicating a bearish reversal signal. Similar to the bullish engulfing pattern, the strategy revolves around identifying trading opportunities, albeit from a short-selling perspective.

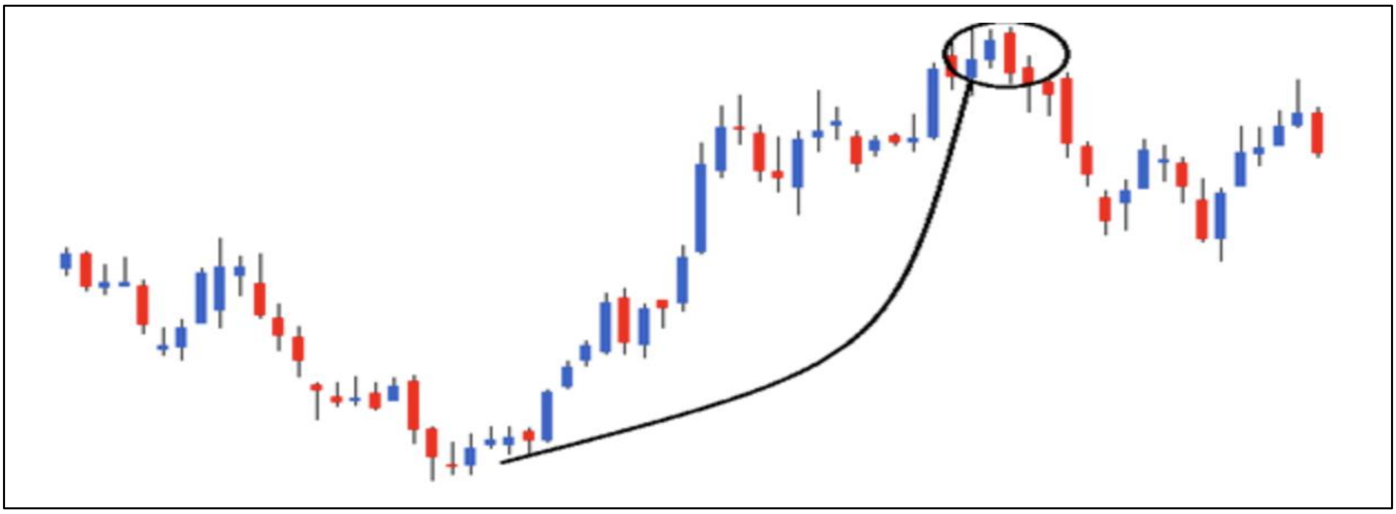

Fig 21: The Piercing Pattern

The piercing pattern closely resembles the bullish engulfing pattern with a slight difference. In a bullish engulfing pattern, the second candle (P2) completely engulfs the first candle's (P1) range. However, in a piercing pattern, the second candle (P2) partially engulfs the first candle's (P1) range.

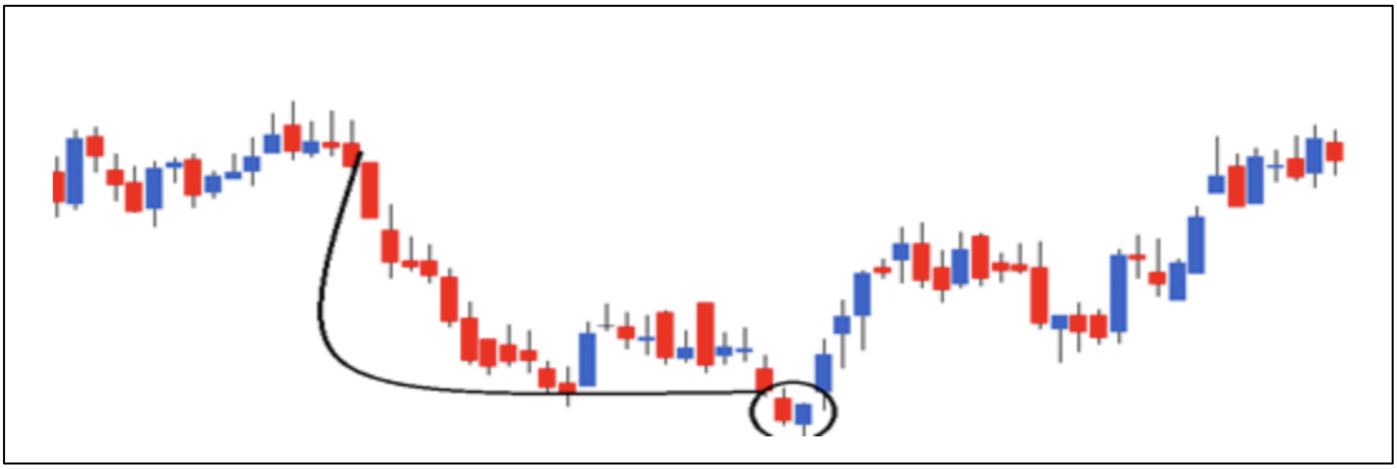

Fig 22: Double Single

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H. The Dark Cloud Cover –

The dark cloud cover pattern resembles the bearish engulfing pattern with a minor difference. In a bearish engulfing scenario, the crimson candle of the subsequent day (P2) wholly envelops the azure candle of the prior day (P1). In contrast, in a dark cloud cover pattern, the scarlet candle of the subsequent day (P2) encompasses around 50% to 100% of the span of the azure candle from the prior day (P1).

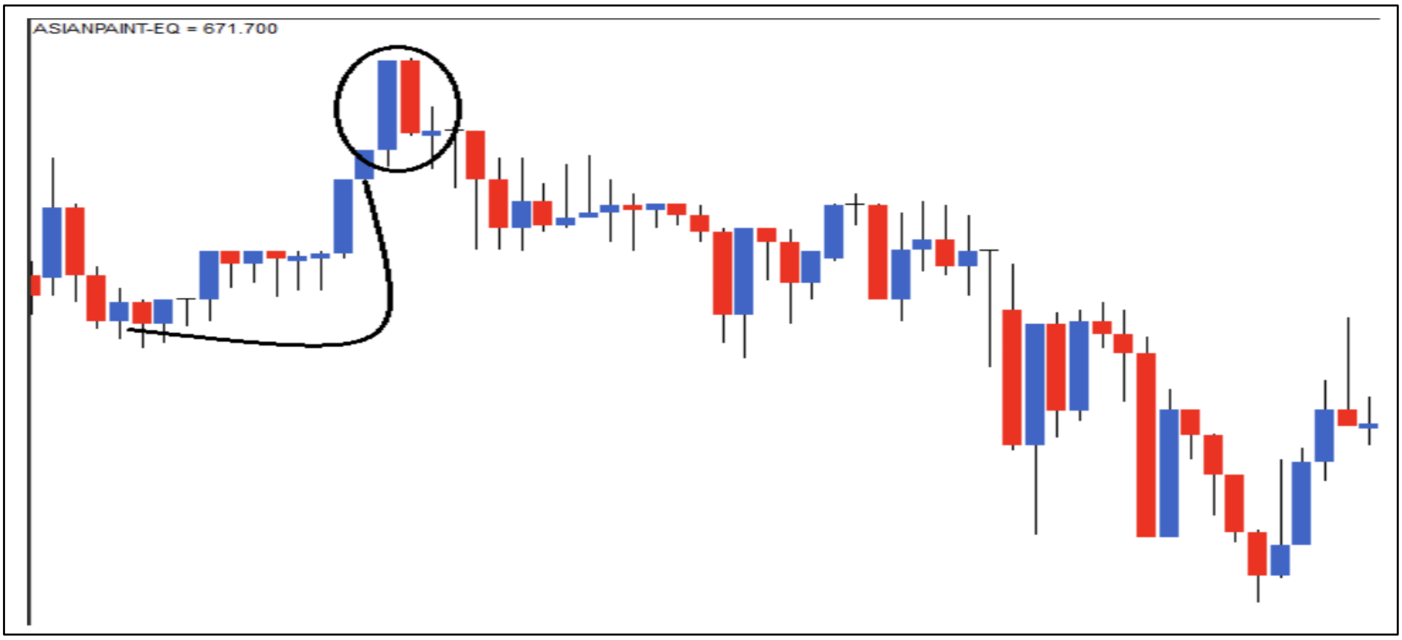

Fig 23: A Perspective on Selecting a Trade

Stocks within the same industry often demonstrate similar price fluctuations due to their comparable scale, business activities, and exposure to external industry influences. However, this similarity does not imply identical price movements on a point by point. For example, if adverse news impacts the banking sector, banking stocks typically witness a decline. In such instances, if ICICI Bank's stock value decreases by 2%, it does not necessarily mean that HDFC Bank's stock price will also drop precisely by 2%. HDFC Bank's stock might instead decrease by 1.5% or 2.5%. As a result, both stocks could exhibit dissimilar yet somewhat resembling candlestick patterns concurrently, such as a bearish engulfing and dark cloud cover.

I. The Harami Pattern –

It consists of two candles. The first candle is typically long, while the second candle has a smaller body. The colour of the second candle is generally opposite to that of the first candle.

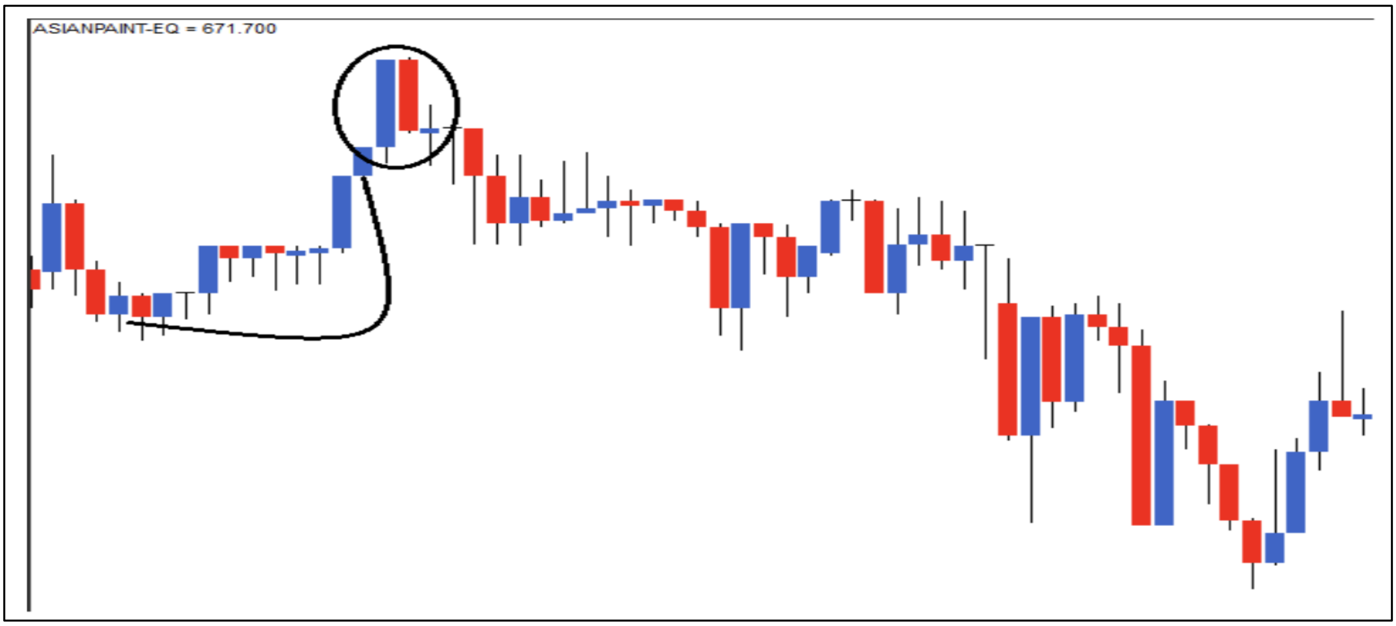

Fig 24: Bullish Harami

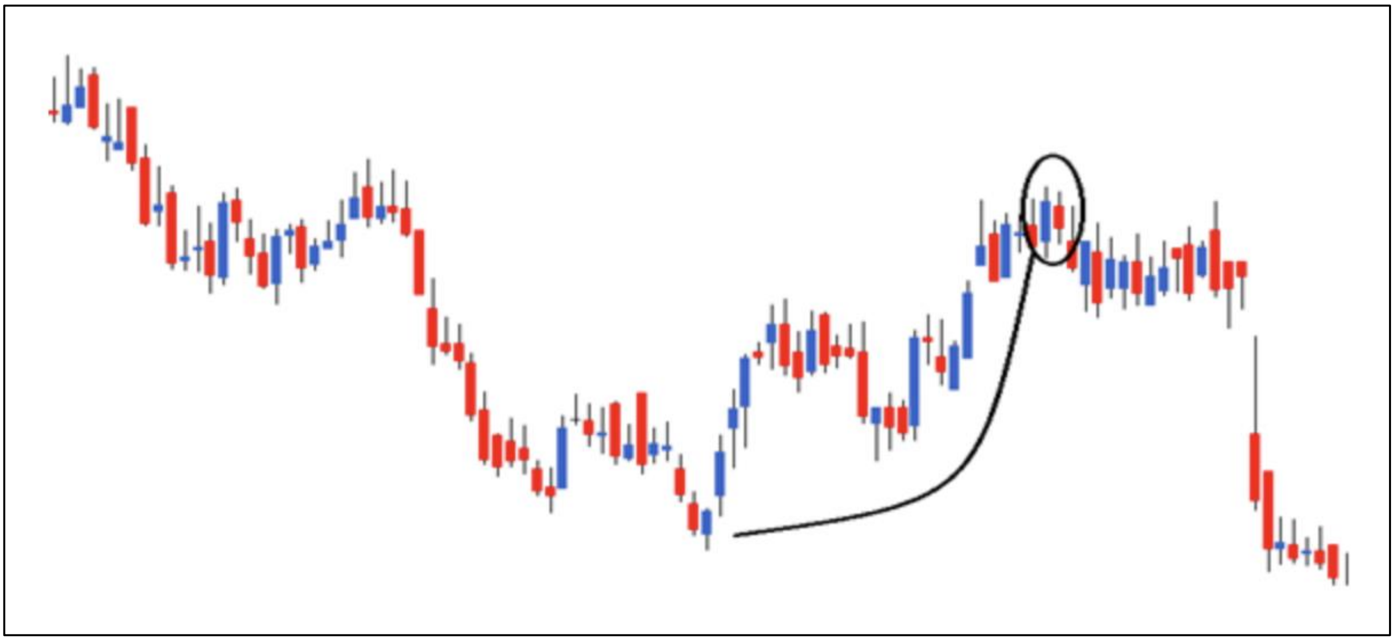

Fig 25: Bearish Haram

J. The Gaps

A gap up opening signifies strong buyer enthusiasm in the market. It occurs when buyers are eager to purchase stocks at prices higher than the previous day's closing price. As a result, the stock (or index) opens directly above the previous day's closing price due to this optimistic outlook among buyers. For instance, if ABC Ltd closed at Rs.100 on Monday and announced exceptional quarterly results after market close, buyers may be so enthusiastic that the stock opens on Tuesday morning at Rs.104 without any trading occurring between Rs.100 and Rs.104. This phenomenon is referred to as a gap up opening, which indicates bullish sentiment in the market.

Fig 26: The Bearish Gap

A gap down opening reflects strong bearish sentiment in the market. It occurs when sellers are eager to offload their stocks at prices lower than the previous day's closing price. For instance, if ABC Ltd closed at Rs.100 on Monday but reported disappointing quarterly results after market close, sellers may be motivated to sell aggressively on Tuesday morning. As a result, the stock could open directly at Rs.95 instead of Rs.100, without any trading occurring between Rs.100 and Rs.95. This scenario is known as a gap down opening, which signifies bearish sentiment in the market. In the image provided, the green arrows indicate instances of gap down openings.

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Fig 27: The Bullish Gap

K. The Morning Star –

It is a bullish candlestick pattern that develops over a three day period, signifying a reversal of a downtrend. It develops from three successive candlesticks and usually appears at the lower end of a downtrend.

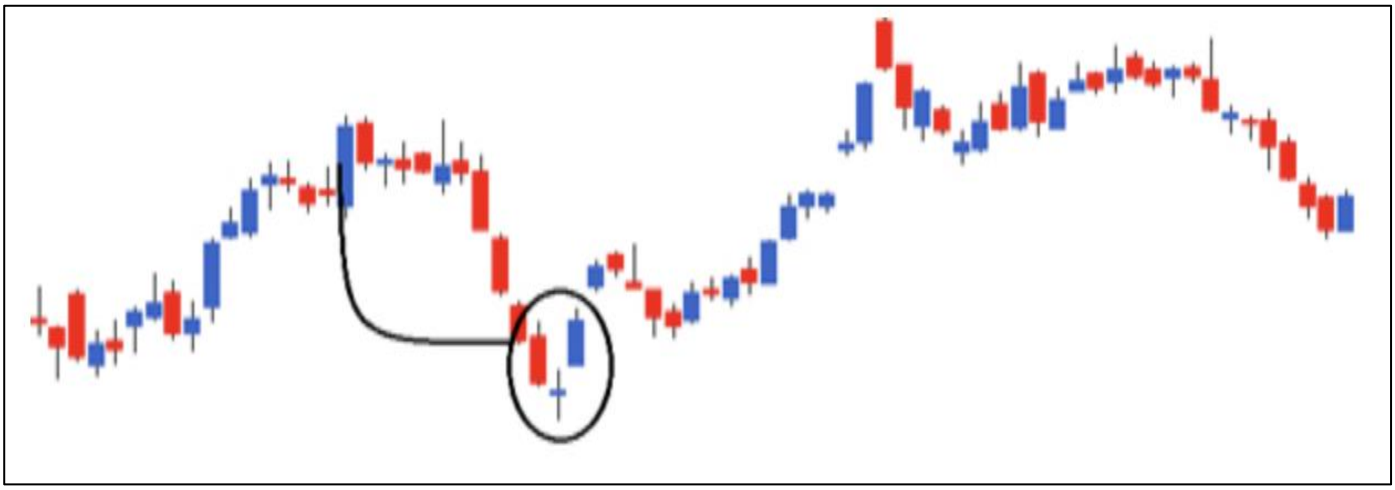
Fig 28: The Morning Star

L. The Evening Star

It is the bearish counterpart of the morning star. It appears at the top of an uptrend and, consists of a three-candle formation that unfolds over three trading sessions.

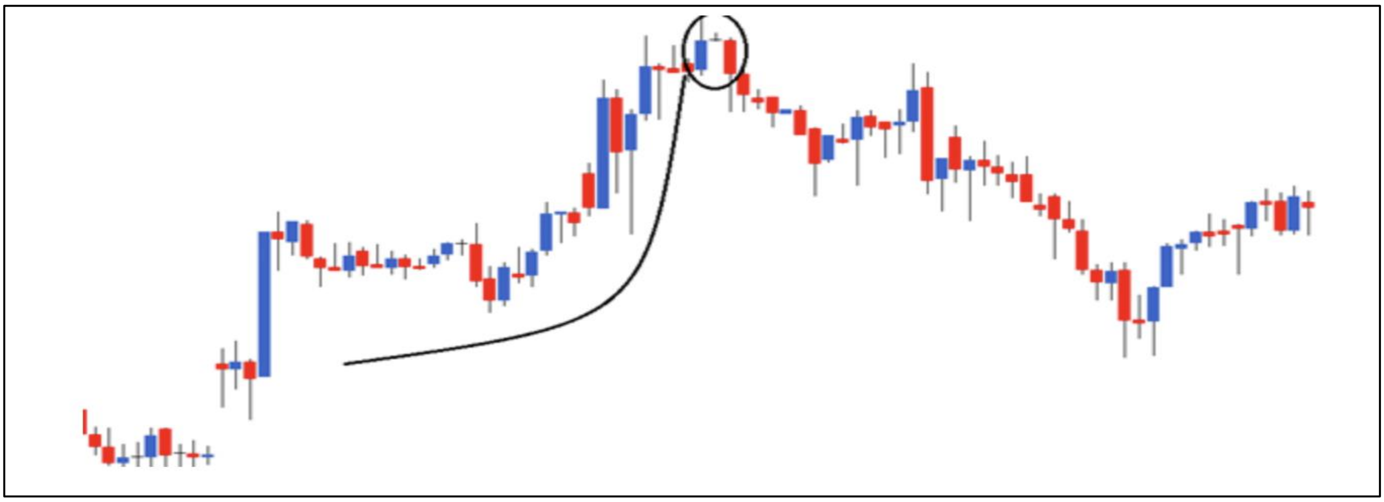
Fig 29: The Evening Star

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IX. RESISTANCE AND SUPPORT

A. The Resistance

Resistance is a level on a price chart that prevents the price from moving higher. It represents a price point where traders anticipate significant selling pressure for the stock or index. Typically, the resistance level is positioned above the current market price.There is a high probability that the price might rise towards the resistance level, encounter selling pressure, consolidate around that level, and potentially decline afterward. Resistance is a crucial concept in technical analysis, widely observed by market participants during upward price movements. It often serves as a signal prompting traders to consider selling.In the case of Ambuja Cements Limited, the chart shows a horizontal line at Rs.215, which indicates the identified resistance level for the stock.

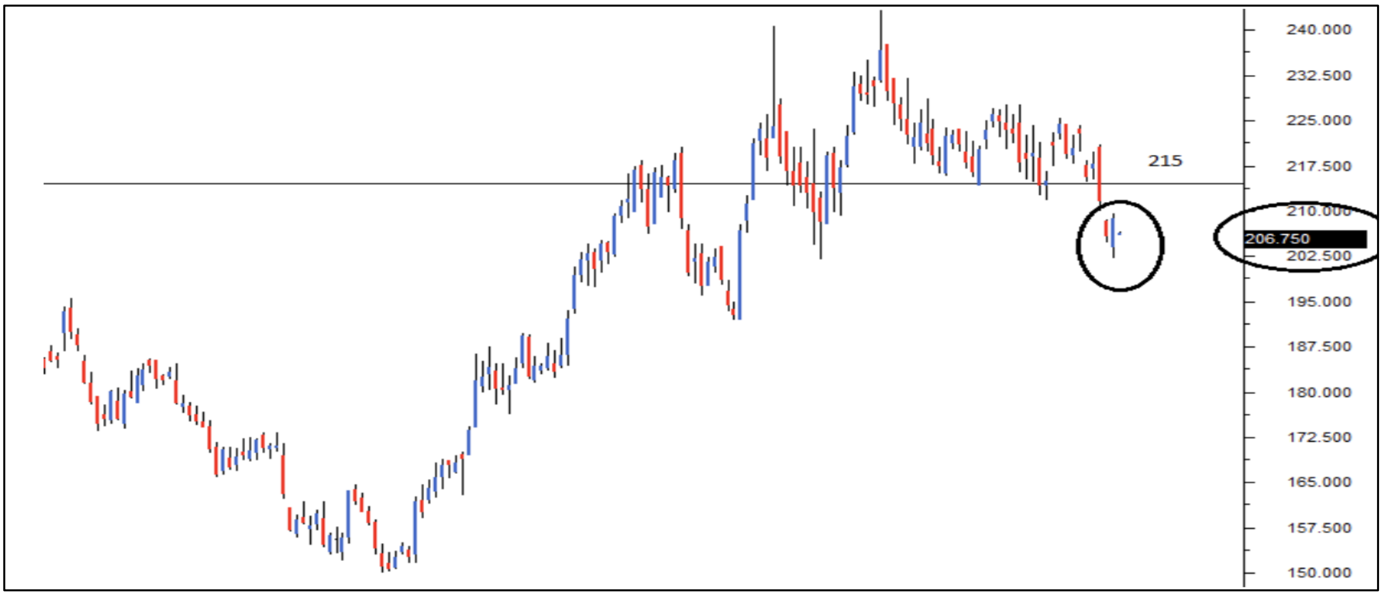

Fig 30: Resistance

The resistance level, depicted by a horizontal line, stands above the current market price. With the resistance level marked at 215, the current candle shows a price of 206.75.

B. The Support

Support is a level that prevents the price from declining further. It represents a price point on the chart where traders anticipate significant demand (buying activity) for the stock or index. When the price reaches the support level, it is expected to rebound. The support level is always below the current market price.

Typically, when the price approaches the support level, there is a strong likelihood of it stabilizing, absorbing all buying interest, and then reversing direction upwards. Support levels are crucial technical indicators that market participants closely monitor during market declines, often signaling buying opportunities. For instance, in the chart of Cipla Limited, the horizontal line positioned at 435 denotes the support level for the stock.

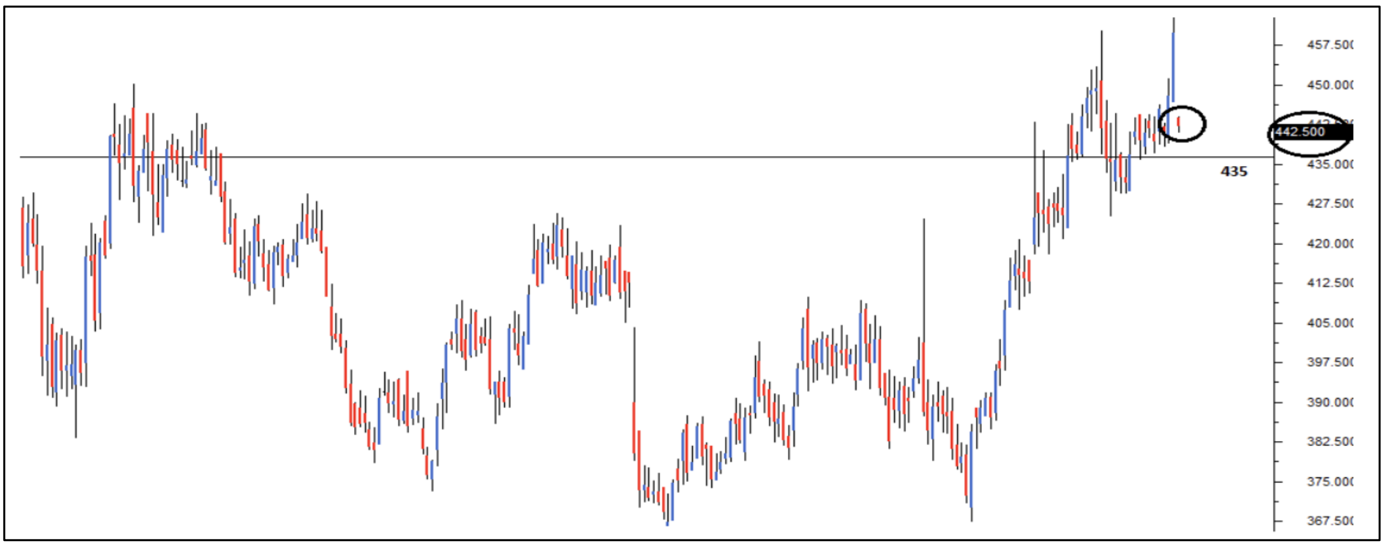

Fig 31: Construction/Drawing of the Support and Resistance Level

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Step 1) Loading Data Points – When aiming to identify short-term support and resistance (S&R) levels, it's recommended to load a dataset spanning 3-6 months. For identifying long-term S&R levels, loading a dataset covering 12-18 months is advisable. Loading a larger number of data points compresses the chart appearance.

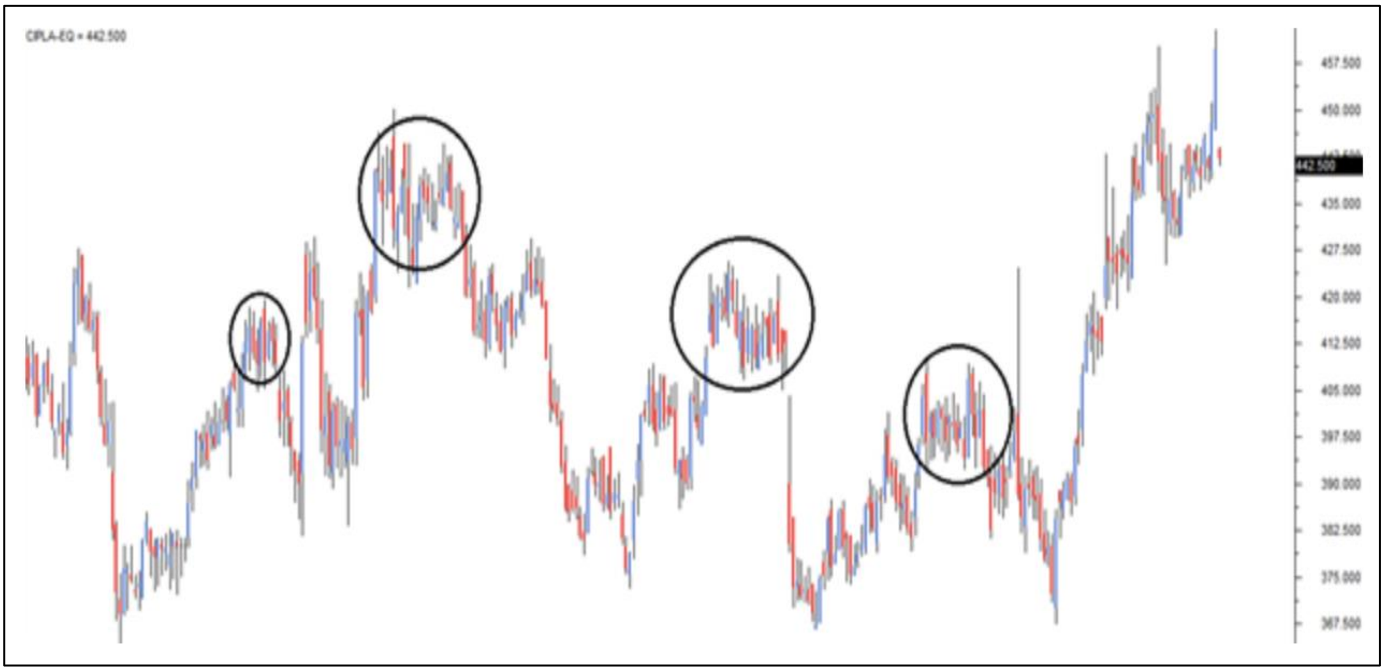

Fig 32: Chart Displaying 12 Months of Loaded Data Points

- *Identify at Least Three Price Action Zones on the Chart where the Price has Demonstrated one of the Following Characteristics:*

- Hesitated its rise following a brief upward movement
- Hesitated its fall following a brief downward movement
- Encountered abrupt reversals at distinct price levels

In the chart below, the encircled points highlight instances where the price hesitated to extend its upward movement after a brief rise:

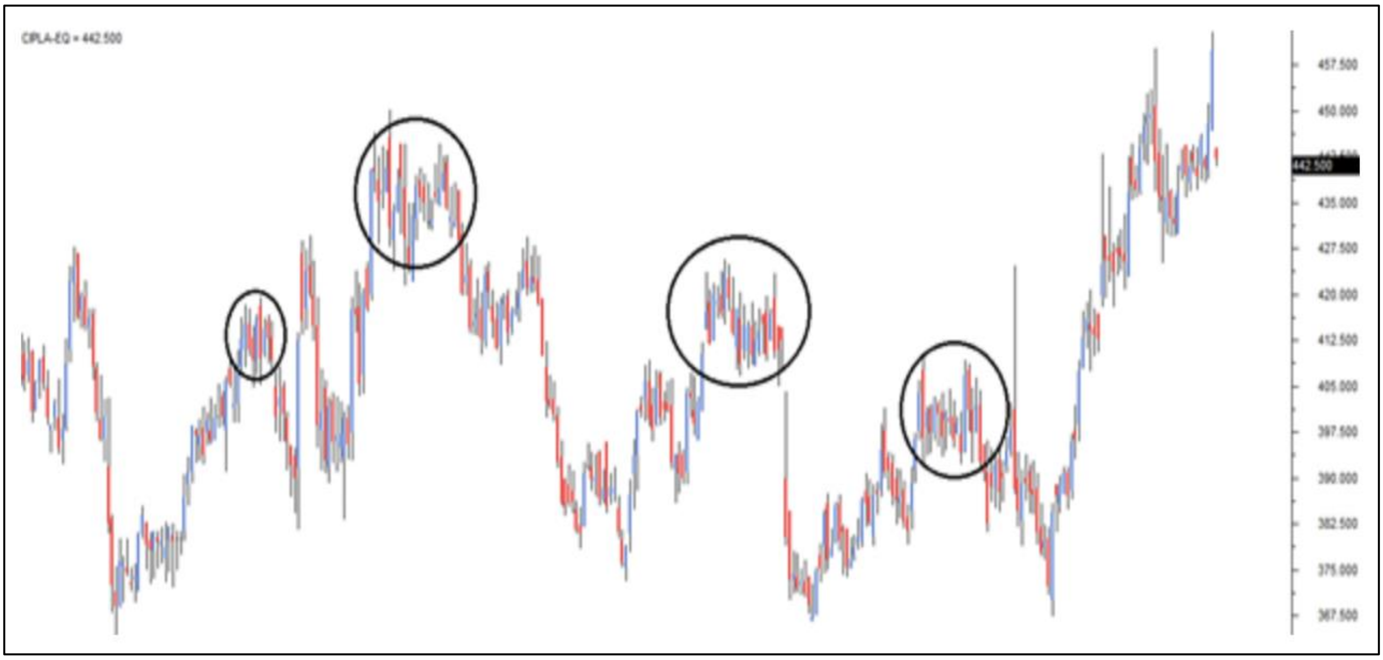

Fig 33: Upward Movement after a Brief Rise

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➢ *In the Chart Below, the Encircled Points Illustrate Instances where the Price Hesitated to Decline Further Following a Brief Downward Movement:*

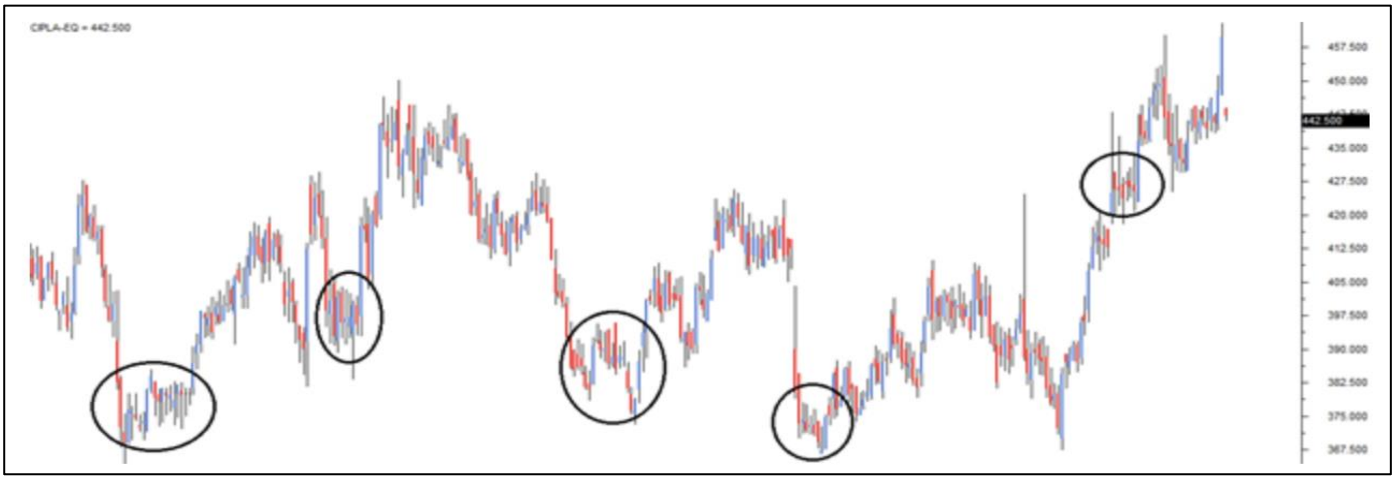

Fig 34: Decline, Further Following a Brief Downward Movement

In the chart below, the encircled points highlight instances of sharp price reversals:

Fig 35: Price Reversals

Step 3) Align the price action zones – When analyzing a 12-month chart, it's typical to identify multiple price action zones. However, the key is to pinpoint at least 3 price action zones occurring at the same price level.

Fig 36: Multiple Price Action Zone

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Step 4) Fit a horizontal line – Draw a horizontal line that connects the three identified price action zones. Depending on how this line aligns with the current market price, it will determine whether it acts as support or resistance.

Fig 37: Support or Resistance

➢ *Starting from the Left:*

- The first circle highlights a price action zone characterized by a sharp reversal in price.
- The second circle highlights a price action zone where the price exhibits resistance.
- The third circle highlights a price action zone characterized by a sharp reversal in price.
- The fourth circle highlights a price action zone where the price shows support.
- The fifth circle indicates the current market price of Cipla – 442.5.

Here is another chart where both support and resistance levels have been identified for Ambuja Cements Limited.

Fig 38: Both Support & Resistance

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X. RELIABILITY OF RESISTANCE AND SUPPORT

Support and resistance lines serve as indicators of potential price reversals, but they should not be considered definitive predictions. In technical analysis, these levels are assessed in terms of probability based on observed patterns. For instance, considering the chart of Ambuja Cements: Current Market Price = 204 Resistance = 214The expectation is that if Ambuja Cements attempts to rise, it might encounter resistance around 214. This suggests that sellers could potentially enter the market at 214, exerting downward pressure on prices. However, it's important to understand the reliability and dependency on the resistance line.

Volumes in trading indicate the total number of shares bought and sold within a specific period. Higher volume typically reflects increased market activity for that stock. For example, if you buy 100 shares of Amara Raja Batteries at 485 and another party sells 100 shares at the same price, a trade occurs due to the price and quantity matching.

XI. CONCLUSION

➢ *Fundamental VS Technical:*

Which is better Choosing between technical and fundamental analysis hinges on various factors such as investment goals, investor preferences, and the nature of assets under consideration. Fundamental analysis serves as a foundational method for evaluating investment opportunities based on a security's financial health. In contrast, technical analysis complements this by focusing on historical market data and metrics like stock prices and trading volumes to gauge market trends and make trading decisions. Both approaches offer distinct advantages and drawbacks, and they can be effectively combined to enhance decision-making processes.

➢ *Key Distinctions between Fundamental and Technical Analysis Include:*

- **Meaning**: Fundamental analysis delves into the fundamental aspects of a business, such as financial statements and economic factors. Technical analysis, on the other hand, examines historical chart data and metrics like price and volume movements.
- **Assumption**: Fundamental analysis assumes that by studying a company's fundamentals, one can forecast its future growth and success. Technical analysis operates under the assumption that all relevant information impacting the stock's price is already reflected in its current market price.
- **Objective**: Fundamental analysis aims to determine the intrinsic value of a company or stock. In contrast, technical analysis seeks to predict future price movements and identify optimal entry and exit points for trading.
- **Data**: Fundamental analysis relies on financial statements, economic data, and industry trends. Technical analysis relies on historical price and volume data derived from charts.
- **Time Horizon**: Fundamental analysis is typically used for long-term investment decisions, while technical analysis is often employed for short-term trading strategies.
- **Interpretation**: Fundamental analysis guides investors to buy undervalued stocks with growth potential and sell overvalued ones. Technical analysis involves interpreting chart patterns and technical indicators like RSI, Moving Averages, and MACD to forecast price movements.
- **Indicators**: Fundamental analysis utilizes financial indicators such as net profit, revenue, assets, liabilities, and various financial ratios. Technical analysis employs technical indicators found on price charts to identify support, resistance levels, and trends.
- **In-depth Understanding**: Fundamental analysis provides deep insights into a company's financial health, competitive positioning, growth prospects, and industry dynamics beyond numerical data.
- Ultimately, the choice between fundamental and technical analysis depends on the investor's preferences, objectives, and the specific characteristics of the investment being considered.

✓ **Conflict of Interest-** I am a high school student, and the purpose of the paper is only research & study and I have no conflict of interest or sponsors.

✓ **Authors' Biography –** The Auhor is a high school student with keen interest in stock market analysis.

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