A Review Paper on the Combining Impact of Fundamental and Technical Analysis on Investment Decision of Investors

Arti Gaur¹, Julee²

¹Associate Professor, Department of Business Administration, CDLU, Sirsa
²Research Scholar, Department of Business Administration, CDLU, Sirsa

Abstract: This paper attempts to highlight the reviews collected from various national and international journals to make the focus on the combining impact of the fundamental and technical analysis for investment decisions. Only few studies have been published in last decade exploring the combining impact of fundamental and technical analysis on the investment decision on foreign markets and there is no study evidenced in the context of Indian stock market. However, there is a lack of research that consolidates the available knowledge concerning the combining impact of fundamental and technical analysis. The main goal of this paper is, by classifying and coding published papers, to summarize and systematize the significant research that has contributed to the development of the concept. The present study aims to be familiar with the effects of combining between fundamental and technical analysis on the decisions of the investors at stock market in India. This paper contributes to the existing literature on the fundamental and technical analysis by presenting an overview of characteristics of the literature and potential knowledge gaps in the field of stock market. The paper also discusses suggestions for future research in combing impact of the fundamental and technical analysis.

I. INTRODUCTION:

Technical analysis and fundamental analysis are two main schools of thoughts in stock markets for analysing the securities for investment purpose. There are two main types analysis that the investors need to know to succeed: technical analysis and fundamental analysis. Technical analysis is the use of past price behaviour and/or other market data, such as volume, to guide trading decision in asset markets/Security market/ forex markets. These decisions are taken by applying simple rules to historical price data. A technical trading rule (TTR), for example, might suggest buying a currency if its price has risen more than 1% from its value in five trading sessions earlier. Trader in stock, commodity and foreign exchange markets use such rule widely (Neely and Weller 2011). Fundamental analysis for the market studies the macroeconomic indicators, asset markets and political consideration of one nation's currency as opposed to another. Macroeconomic indicators include things such as: growth rates (Gross Domestic Product), interest rates, inflation, unemployment, money supply, foreign exchange reserves, and productivity. Asset markets are made up of stocks, bonds and real estate. Political considerations influence the level of confidence in a nation's government, the climate of stability, and the level of certainty (McDonald, 2007)

II. FUNDAMENTAL ANALYSIS

Fundamental analysis is a combination of economic, industry and company analysis to obtain a stock’s current fair value and for predicting its future value. The fundamental analysis approach to investment assumes that each security has an intrinsic value that can be determined on the basis of such fundamental data as accounting earnings, dividends, growth factors, and debt/equity ratios. An analyst determines the intrinsic value on the basis of these fundamentals and compares this value with the current market price to determine if the security is under-priced or overpriced. Generally, fundamental analysis is based on publicly available information. Those who adopt the fundamental analysis approach tend to believe that the adjustment of security prices lags behind the arrival of publicly available information.

2.1 How Fundamental analysis works:

Fundamental analysis is works on the basis of economic, industry and company analysis for determining the prices of the securities for making buying and selling decisions. Fundamental analysis believes that are economic indicators are like GDP, interest rates, investments and savings and industry specific condition and specific company analysis best predict the prices of shares for future investment decisions. If the fundamental of a company and industry under which comes are strong in economy that means on the basis of that we can assume the prices for making buying and selling decisions for the shareholders.
Fundamental analysis tools analyse the economy, strategy, management, product, financial statements and all other relevant information will help to finalising the shares that will outperform the market and provides the opportunity for getting consistent gains to the investors.

2.2 Technical Analysis
Technical analysis is the study of stock prices movements in the security market. Technical analysis believes that the future prices of the securities can be predicted on the basis of past prices, with the help of several indicators a technical analysts analyses the relationship between the price volume and supply demand the overall market, as well as for an individual stock. The technical analysis is based on the concept that history repeats itself and it is also true in case of stock markets. The share markets always moves in a trend except some minor movements in the price of securities.

2.3 How Technical Analysis Works:
Technical analyst’s works on the basis of past price trends of securities for determining the securities future prices for taking buying and selling decisions of the securities. Technical analysts believe past trading activity and price changes of a security can be valuable indicators of the security's future price movements. They may use technical analysis independent of other research efforts or in combination with some concepts of intrinsic value considerations. Technical analysts look at the past price trends of securities for predicting future price movements.

2.3.1 Objective
The objective of this paper is to highlight the reviews done by other authors collected from various journals regarding the combining impact of the fundamental and technical analysis.

2.3.2 Data Collection
In this present paper the secondary data has been used for conducted the study. The data has been collected from various websites, journals, and research papers and previous studies done by other authors.

III. INTERNATIONAL AND NATIONAL REVIEWS.
The review of earlier studies is very essential and useful to give the right direction of any study. It explores the developments in the subjects of the study. It helps the researcher in formulating the methodology comprising establishing hypotheses and selecting the variables to be studied and seeks to explore research gap. It describes what has actually been done and what remains yet to be done on the specific subject/phenomenon.

Lee (1987) recognised that the role of fundamental analysis in the stock market. Specifically, market responses to Abelson’s fundamental analyses in Barron’s were studied. The analyses in Abelson’s column were classified, according to their contents, into four categories. Market reactions to those different contents to analyses were measured. Univariate t-test, binomial Z-test, ANOVA F-test and Chi-square independence tests, were applied to check the significance and the uniformity of market reactions to various fundamental analyses. The study concluded that the market reacted discriminatingly to the contents of fundamental analyses and that investors did not make significant monetary gains from the use of Abelson’s analyses for their investment decisions.

Blume, Easley, and Ohara (1994) study focused on the information role of volume and its applicability for technical analysis and developed a new equilibrium model in which aggregate supply is fixed and traders receive signals with differing quality. The result shows that volume provides information on information quality that cannot be deducted from the prices statistic. The study concluded that how volume, information precision, and price movements relate, and demonstrate how sequences of volume and price can be informative. The study further
concluded that traders who use information contained in market statistics for making their investment decision do better than traders, who do not.

Thom as Oberlechner (2001) conducted a survey through a questionnaire and an interview method on the perceived importance of Technical and Fundamental analysis among foreign exchange traders and financial journalists in Frankfurt, London, Vienna and Zurich. Foreign Exchange traders confirm that, out of the both forecasting approaches, technical analysis is more prominent as compared to fundamental analysis. Whereas the financial journalists rely more on fundamental analysis than foreign exchange traders.

Piotroski (2004) analysed the trade generating activities of three major market participants-financial analysts, institutional investors and insiders influenced the relative amount of market level information impounded into stock prices. They ground out that stock return synchronicity was positively associated with analysts forecasting activities, consistent with analysts increasing the quantity of industry level information in prices through intra-industry information transfers.

Saggar (2005) concluded that the financing and investment pattern of non-financial, non-government, public limited firms over the period 1971-72 to 1999-2000 at an aggregate and disaggregates level of major industry groups. The study found that the financing pattern of Indian firms was debt based but their share of internal sources increased markedly in the latter half of the 1990’s, which had an impact on share prices.

Chen and Li (2006) examined the problems of thin trading and inefficiency, use unadjusted and adjusted returns, considered past volume in- conjunction with past returns, tried absolute and relative variable, in order to bring out the value, if any, of technical analysis. The authors did not find reasonably strong evidence supporting either spurious or genuine predictability of returns, or that volume contains additional information omitted by prices, for the majority of the 39 companies listed of the SZSE component A-share index and its constituent stocks are considered, the value of technical analysis might have been exaggerated or overstated.

Tripathi (2008) study examined the relationship between the four company fundamental variables (viz. Market capitalization, book equity to market equity ratio, prince-earnings ratio and debt equity ratio) and equity returns in the Indian stock market using monthly price data of 455 companies listed in S & P CNX 500 index over the period June 1997 to June 2007. The study reveals that the market capitalization and price earnings ratio have statistically significant negative relationship with equity returns while book equity to market equity ratio and debt equity ratio have statistically positive relationship with equity returns in India. The study concluded that the investment strategies based on these fundamental variable produced extra risk adjusted returns over the study period.

Gil Cohen1, Andrey Kudryavtsev and Shlomit Hon-Snir (2011) Conducted a survey to examine difference between professional investors to non professional inventors in their approach towards technical and fundamental analysis. The results tells us that both the investor group’s weather professional or nonprofessional use more frequently fundamental analysis then technical analysis when they make buy/sell decisions and it was also found that than non-professional investors use fundamental analysis as analyst recommendation when they buy stocks and use technical analysis such as support and resistance level when they sell stocks.

Moosa Imadand Li Larry (2011) conducted an empirical study based on monthly data on stock prices of 100 companies listed on the shanghai stock exchange. An econometric model is used to differentiate between the effect on stock prices of the actions taken by traders on the basis of fundamental and technical analysis. The study concluded that the results supports the econometric evidence on the role played by fundamentalists and technicality in financial price determination, moreover some special features of the Chinese market give technicians the upper hand, in the sense that there activities have more significant impact on stock prices as compared to fundamentalists.

Joshi (2013) investigated the extent to which major factors are responsible for the price movements in the Indian stock market. The study concluded that factors like flow of foreign institutional investors, political stability, GDP, inflation, savings and investments, interest rates, liquidity and global level factors are responsible to create movements in Indian stock markets.

Jiali(jasmine) fang (2014) conducted a study in which time series and cross-sectional level was used to lighten on the efficiency of technical analysis in international stock markets. The study was divided into four parts namely...
importance of data snooping analysis, available literature provided, Ballinger bands and lastly the paper concluded that the technical analysis possesses significant practical values dependent on investors cultural individualism, market development and integrity and information uncertainty. The study finally concluded that usefulness of the technical analysis and while investing always keep in mind the data of data snooping and investors overuse or the practitioner never given ups on the technical analysis.

P. Devika and Dr. S. Poornima (2015) conducted a survey on the use of fundamental and technical analysis by brokers/fund managers in Indian stock market for forecasting share price movements. The study concluded that more than 85 percent of the respondents rely upon both fundamental and technical analysis for forecasting future prices of shares at different time horizons. When the market was bullish then the participants rely more upon the technical analysis and when the market was bearish then participants rely more on fundamental analysis for predicting the share prices.

Yousef atef Ahmed (May 2016) recognized that the effects of combining between fundamental and technical analysis on the decision of the investors at forex markets. The study says that the respondents “experts” use technical analysis when they make the investment because the technical analysis is considered bases for trading in currency markets simultaneously from another side experts don’t use it alone without considering the fundamental analysis that will lead to earn return. And the result shows that the most loosing transaction occurred as a result of trading with depending on one type of analysis and negligence of another and also because of random trading.

IV. SCOPE FOR THE FUTURE RESEARCH:
The paper discussed the literature review of the combining impact of the fundamental and technical analysis on the investment decisions of investors. One of the major limitations observed in the literature is that most of the studies on the combining impact of fundamental and technical analysis evidences concentrated mainly in separate analysis of fundamental and technical analysis only very few focused on the combing impact of fundamental and technical analysis. Further, the evidence of combining impact of fundamental and technical analysis are helpful in generating the higher returns as compare to individual analysis. Hence, there exist a huge gap in the existing literature. We need to more empirical research to re-examine and robustness the combining impact of fundamental and technical analysis in stock markets while investing in stock market. Moreover the combining impact of fundamental and technical analysis on the investment decision in the forex markets and commodities markets and futures markets as well in India. Also a comparative study on the strength of fundamental and technical analysis in stock markets and forex and future markets could be undertaken as future course of research to understand the significant difference exist, in the investing behaviour of the investors in the two different types of analysis on different markets. This all provides great oppu to the researchers to look into the area with new outlook and other perspectives as well.

V. CONCLUSION
The study concludes that both fundamentals and technical analysis have their own importance in investment decisions. The fundamental analysis advice about the long term investment alternatives with the proper application of fundamental analysis the investors choose the securities for investment in the long run whereas the technical analysis tells about the short term trend of the market and the securities. Investors can trade for short term on the basis of trends and can predict the prices for short run and also they can earn good amount of profits with the help of proper implementation of technical analysis. But if we combined the both the analysis then investors can get best results they can select the securities with the help of fundamental analysis and choose the time to enter and exit in trades with the help of technical analysis. This literature review highlights the work of various authors and provides the proper understanding to the researchers in the respective field. Till date the studies on combining impact on fundamental and technical analysis are mainly from the foreign markets or in the field of forex markets. However, there is a need of studying the concept of combining impact of fundamental and technical analysis on Indian stock market.

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