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The Review of the Stock Market Analysis in United States of America, India & International

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Abstract

The stock market refers to public markets that exist for issuing, buying, and selling stocks that trade on a stock exchange or over-the-counter. Stocks, also known as equities, represent fractional ownership in a company, and the stock market is a place where investors can buy and sell ownership of such investible assets. Stock is a share in the ownership of a company. Stock represents a claim on the company's assets and earnings. As you acquire more stock, your ownership stake in the company becomes greater. Whether you say shares, equity, or stock, it all means the same thing. Being an Owner Holding a company's stock means that you are one of the many owners (shareholders) of a company and, as such, you have a claim (albeit usually very small) to everything the company owns. Yes, this means that technically you own a tiny sliver of every piece of furniture, every trademark, and every contract of the company. As an owner, you are entitled to your share of the company's earnings as well as any voting rights attached to the stock. A stock is represented by a stock certificate an efficiently functioning stock market is considered critical to economic development, as it gives companies the ability to quickly access capital from the public. Stocks can (and do) create massive amounts of wealth, but they aren't without risks. The only solution to this is education. The key to protecting yourself in the stock market is to understand where you are putting your money. Now, trading with a click of the mouse or a phone call makes life easier for everybody, the stock certificate. Why would the founders share the profits with thousands of people when they could keep profits to themselves? The reason is that at some point every company needs to raise money. To do this, companies can either borrow it from somebody or raise it by selling part of the company, which is known as issuing stock. A company can borrow by taking a loan from a bank or by issuing bonds. Both methods fit under the umbrella of debt financing. On the other hand, issuing stock is called equity financing. Issuing stock is advantageous for the company because it does not require the company to pay back the money or make interest payments along the way. All that the shareholders get in return for their money is the hope that the shares will someday be worth more than what they paid for them. The first sale of a stock, which is issued by the private company itself, is called the initial public offering (IPO).



Keywords: Stock Market Analysis, stock trading, initial public offering (IPO)

I. INTRODUCTION

A. *Stock Market – Definition*

The stock market refers to public markets that exist for issuing, buying, and selling stocks that trade on a stock exchange or over-the-counter. Stocks, also known as equities, represent fractional ownership in a company, and the stock market is a place where investors can buy and sell ownership of such investible assets. An efficiently functioning stock market is considered critical to economic development, as it gives companies the ability to quickly access capital from the public.

The term “stock market” often refers to one of the major stock market indexes, such as the Dow Jones Industrial Average or the S&P 500. Because it’s hard to track every single stock, these indexes include a section of the stock market and their performance is viewed as representative of the entire market.

You might see a news headline that says the stock market has moved lower, or that the stock market closed up or down for the day. Most often, this means stock market indexes have moved up or down, meaning the stocks within the index have either gained or lost value as a whole. Investors who buy and sell stocks hope to turn a profit through this movement in stock prices.

B. Purposes of the Stock Market – Capital and Investment Income

The stock market serves two very important purposes. The first is to provide capital to companies that they can use to fund and expand their businesses. If a company issues one million shares of stock that initially sell for $10 a share, then that provides the company with $10 million of capital that it can use to grow its business (minus whatever fees the company pays for an investment bank to manage the stock offering). By offering stock shares instead of borrowing the capital needed for expansion, the company avoids incurring debt and paying interest charges on that debt.

The secondary purpose the stock market serves is to give investors – those who purchase stocks – the opportunity to share in the profits of publicly-traded companies. Investors can profit from stock buying in one of two ways. Some stocks pay regular dividends (a given amount of money per share of stock someone owns). The other way investors can profit from buying stocks is by selling their stock for a profit if the stock price increases from their purchase price. For example, if an investor buys shares of a company's stock at $10 a share and the price of the stock subsequently rises to $15 a share, the investor can then realize a 50% profit on their investment by selling their shares.

II. History of Stock Trading

Although stock trading dates back as far as the mid-1500s in Antwerp, modern stock trading is generally recognized as starting with the trading of shares in the East India Company in London.

A. The Early Days of Investment Trading

Throughout the 1600s, British, French, and Dutch governments provided charters to a number of companies that included East India in the name. All goods brought back from the East were transported by sea, involving risky trips often threatened by severe storms and pirates. To mitigate these risks, ship owners regularly sought out investors to proffer financing collateral for a voyage. In return, investors received a portion of the monetary returns realized if the ship made it back successfully, loaded with goods for sale. These are the earliest examples of limited liability companies (LLCs), and many held together only long enough for one voyage.

B. The East India Company

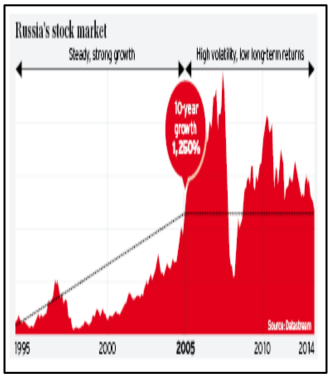
The formation of the East India Company in London eventually led to a new investment model, with importing companies offering stocks that essentially represented a fractional ownership interest in the company, and that therefore offered investors investment returns on proceeds from all the voyages a company funded, instead of just on a single trip. The new business model made it possible for companies to ask for larger investments per share, enabling them to easily increase the size of their shipping fleets. Investing in such companies, which were often protected from competition by royally-issued charters, became very popular due to the fact that investors could potentially realize massive profits on their investments.

C. The First Shares and the First Exchange

Company shares were issued on paper, enabling investors to trade shares back and forth with other investors, but regulated exchanges did not exist until the formation of the London Stock Exchange (LSE) in 1773. Although a significant amount of financial turmoil followed the immediate establishment of the LSE, exchange trading overall managed to survive and grow throughout the 1800s.

D. The Beginnings of the New York Stock Exchange

Enter the New York Stock Exchange (NYSE), established in 1792. Though not the first on U.S. soil – that honor goes to the Philadelphia Stock Exchange (PSE) – the NYSE rapidly grew to become the dominant stock exchange in the United States, and eventually in the world. The NYSE occupied a physically strategic position, located among some of the country's largest banks and companies, not to mention being situated in a major shipping port. The exchange established listing requirements for shares, and rather hefty fees initially, enabling it to quickly become a wealthy institution itself.




III. Modern Stock Trading – The Changing Face of Global Exchanges

Domestically, the NYSE saw meager competition for more than two centuries, and its growth was primarily fueled by an ever-growing American economy. The LSE continued to dominate the European market for stock trading, but the NYSE became home to a continually expanding number of large companies. Other major countries, such as France and Germany, eventually developed their own stock exchanges, though these were often viewed primarily as stepping stones for companies on their way to listing with the LSE or NYSE.

The late 20th century saw the expansion of stock trading into many other exchanges, including the NASDAQ, which became a favorite home of burgeoning technology companies and gained increased importance during the technology sector boom of the 1980s and 1990s & 2000s. The NASDAQ emerged as the first exchange operating between a web of computers that electronically executed trades. Electronic trading made the entire process of trading more time-efficient and cost-efficient. In addition to the rise of the NASDAQ, the NYSE faced increasing competition from stock exchanges in Australia and Hong Kong, the financial center of Asia.

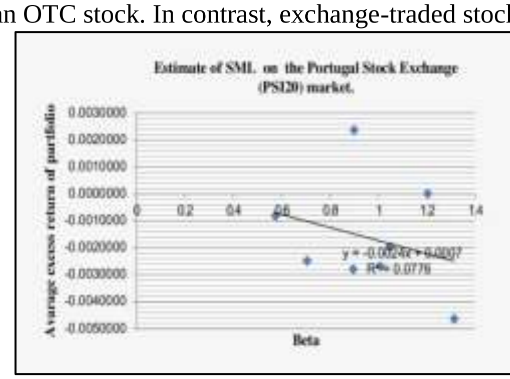
The NYSE eventually merged with Euronext, which was formed in 2000 through the merger of the Brussels, Amsterdam, and Paris exchanges. The NYSE/Euronext merger in 2007 established the first trans-Atlantic exchange.

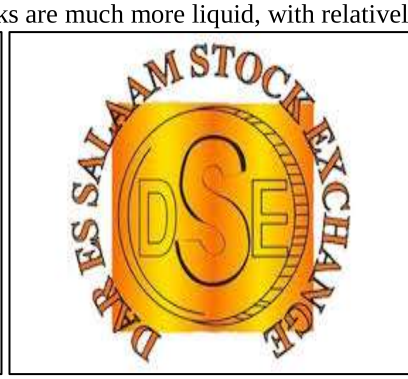
A. How Stocks are Traded – Exchanges and OTC

Most stocks are traded on exchanges such as the New York Stock Exchange (NYSE) or the NASDAQ. Stock exchanges essentially provide the marketplace to facilitate the buying and selling of stocks among investors. Stock exchanges are regulated by government agencies, such as the Securities and Exchange Commission (SEC) in the United States of America, that oversee the market in order to protect investors from financial fraud and to keep the exchange market functioning smoothly.

Although the vast majority of stocks are traded on exchanges, some stocks are traded over-the-counter (OTC), where buyers and sellers of stocks commonly trade through a dealer, or “market maker”, who specifically deals with the stock. OTC stocks are stocks that do not meet the minimum price or other requirements for being listed on exchanges.

OTC stocks are not subject to the same public reporting regulations as stocks listed on exchanges, so it is not as easy for investors to obtain reliable information on the companies issuing such stocks. Stocks in the OTC market are typically much more thinly traded than exchange-traded stocks, which means that investors often must deal with large spreads between bid and ask prices for an OTC stock. In contrast, exchange-traded stocks are much more liquid, with relatively small bid-ask spreads.





B. Stock Market Players – Investment Banks, Stockbrokers, and Investors

There are a number of regular participants in stock market trading. Investment banks handle the initial public offering (IPO) of stock that occurs when a company first decides to become a publicly-traded company by offering stock shares.

Here’s an example of how an IPO works. A company that wishes to go public and offer shares approaches an investment bank to act as the “underwriter” of the company’s initial stock offering. The investment bank, after researching the company’s total value and taking into consideration what percentage of ownership the company wishes to relinquish in the form of stock shares, handles the initial issuing of shares in the market in return for a fee, while guaranteeing the company a determined minimum price per share. It is therefore in the best interests of the investment bank to see that all the shares offered are sold and at the highest possible price.

Shares offered in IPOs are most commonly purchased by large institutional investors such as pension funds or mutual fund companies.

The IPO market is known as the primary, or initial, market. Once a stock has been issued in the primary market, all trading in the stock thereafter occurs through the stock exchanges in what is known as the secondary market. The term “secondary market” is a bit misleading, since this is the market where the overwhelming majority of stock trading occurs day to day.

Stockbrokers, who may or may not also be acting as financial advisors, buy and sell stocks for their clients, who may be either institutional investors or individual retail investors. Equity research analysts may be employed by stock brokerage firms, mutual fund companies, hedge funds, or investment banks. These are individuals who research publicly-traded companies and attempt to forecast whether a company’s stock is likely to rise or fall in price.

Fund managers or portfolio managers, which includes hedge fund managers, mutual fund managers, and exchange-traded fund (ETF) managers, are important stock market participants because they buy and sell large quantities of stocks. If a popular mutual fund decides to invest heavily in a particular stock, that demand for the stock alone is often significant enough to drive the stock’s price noticeably higher.

C. *Stock Market Indexes*

The overall performance of the stock market is usually tracked and reflected in the performance of various stock market indexes. Stock indexes are composed of a selection of stocks that is designed to reflect how stocks are performing overall. Stock market indexes themselves are traded in the form of options and futures contracts, which are also traded on regulated exchanges.

Among the key stock market indexes are the Dow Jones Industrial Average (DJIA), the Standard & Poor’s 500 Index (S&P 500), the Financial Times Stock Exchange 100 Index (FTSE 100), the Nikkei 225 Index, the NASDAQ Composite Index, and the Hang Seng Index.

D. *Bull and Bear Markets, and Short Selling*

Two of the basic concepts of stock market trading are “bull” and “bear” markets. The term bull market is used to refer to a stock market in which the price of stocks is generally rising. This is the type of market most investors prosper in, as the majority of stock investors are buyers, rather than short-sellers, of stocks. A bear market exists when stock prices are overall declining in price.

Investors can still profit even in bear markets through short selling. Short selling is the practice of borrowing stock that the investor does not hold from a brokerage firm that does own shares of the stock. The investor then sells the borrowed stock shares in the secondary market and receives the money from the sale of that stock. If the stock price declines as the investor hopes, then the investor can realize a profit by purchasing a sufficient number of shares to return to the broker the number of shares they borrowed at a total price less than what they received for selling shares of the stock earlier at a higher price.

For example, if an investor believes that the stock of company “A” is likely to decline from its current price of $20 a share, the investor can put down what is known as a margin deposit in order to borrow 100 shares of the stock from his broker. He then sells those shares for $20 each, the current price, which gives him $2,000. If the stock then falls to $10 a share, the investor can then buy 100 shares to return to his broker for only $1,000, leaving him with a $1,000 profit.

E. *Analyzing Stocks – Market Cap, EPS, and Financial Ratios*

Stock market analysts and investors may look at a variety of factors to indicate a stock’s probable future direction, up or down in price. Here’s a rundown on some of the most commonly viewed variables for stock analysis. A stock’s market capitalization, or market cap, is the total value of all the outstanding shares of the stock. A higher market capitalization usually indicates a company that is more well-established and financially sound.

Publicly traded companies are required by exchange regulatory bodies to regularly provide earnings reports. These reports, issued quarterly and annually, are carefully watched by market analysts as a good indicator of how well a company’s business is doing. Among the key factors analyzed from earnings reports are the company's earnings per share (EPS), which reflects the company's profits as divided among all of its outstanding shares of stock.

Analysts and investors also frequently examine a number of financial ratios that are intended to indicate the financial stability, profitability, and growth potential of a publicly-traded company. The following are a few of the key financial ratios that investors and analysts consider:

1) *Price to Earnings (P/E) Ratio:*

The ratio of a company's stock price in relation to its EPS. A higher P/E ratio indicates that investors are willing to pay higher prices per share for the company's stock because they expect the company to grow and the stock price to rise.

2) *Debt to Equity Ratio:*

This is a fundamental metric of a company's financial stability, as it shows what percentage of a company's operations are being funded by debt compared to what percentage are being funded by equity investors. A lower debt to equity ratio, indicating primary funding from investors, is preferable.

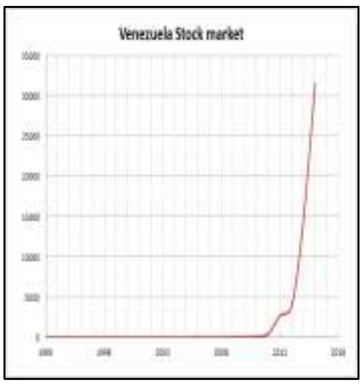
3) *Return on Equity (ROE) Ratio:*

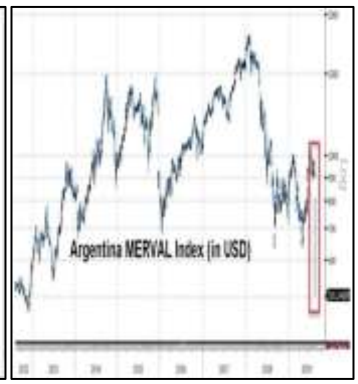
The return on equity (ROE) ratio is considered a good indicator of a company's growth potential, as it shows the company's net income relative to the total equity investment in the company.

4) *Profit Margin:*

There are several profit margin ratios that investors may consider, including operating profit margin and net profit margin. The advantage of looking at profit margin instead of just an absolute dollar profit figure is that it shows what a company's percentage profitability is. For example, a company may show a profit of $2 million, but if that only translates to a 3% profit margin, then any significant decline in revenues may threaten the company's profitability.

Other commonly used financial ratios include return on assets (ROA), dividend yield, price to book (P/B) ratio, current ratio, and the inventory turnover ratio.



F. Two Basic Approaches to Stock Market Investing – Value Investing and Growth Investing

There are countless methods of stock picking that analysts and investors employ, but virtually all of them are one form or another of the two basic stock buying strategies of value investing or growth investing.

- Value investors typically invest in well-established companies that have shown steady profitability over a long period of time and may offer regular dividend income. Value investing is more focused on avoiding risk than growth investing is, although value investors do seek to buy stocks when they consider the stock price to be an undervalued bargain.
- Growth investors seek out companies with exceptionally high growth potential, hoping to realize maximum appreciation in share price. They are usually less concerned with dividend income and are more willing to risk investing in relatively young companies. Technology stocks, because of their high growth potential, are often favored by growth investors.

IV. DIFFERENT TYPES OF STOCKS

The two main types of stocks are common stock and preferred stock.

A. Common Stock

This is the most common type of stock available to the public, hence the term "common stock." A majority of the stocks are in fact issued in this form. When people discuss stocks in the market, they are usually referring to this type of stock.

When you purchase common stocks, you become part owner of the business in a way. Stocks are bought in shares. The more shares you have, the bigger your share of the profits (commonly referred to as dividends) and the greater your voting power will become. Investors usually get one vote per share. Voting is a privilege given to a shareholder and are used in situations such as as the election of the board members who oversee the major decisions made by management.

B. Preferred Stock

The main difference of a preferred stock from common is that, with preferred shares the investors are normally guaranteed a fixed dividend. Common stocks have variable dividends depending on the performance of the company. As a preferred stockholder the investor still has a degree of ownership on the company, but the right to vote usually doesn't come with it. This varies from one company to another.

Another advantage of having preferred stocks is that the preferred shareholders will be paid before the common shareholders in the event of a liquidation. However, at any time, the company has the option to buy back the shares of preferred stockholders for any reason. Preferred stocks are purchased by investors for the sole purpose of monetary gain only. Preferred stock can be further subdivided into 4 variations. These are: adjustable rates, convertible, participating and voting.

V. STOCK MARKET ANALYSIS

A. What is Stock Market Analysis?

Stock market analysis enables investors to identify the intrinsic worth of a security even before investing in it. All stock market tips are formulated after thorough research by experts. Stock analysts try to find out activity of an instrument/sector/market in future.

Stock analysis is a method for investors and traders to make buying and selling decisions. By studying and evaluating past and current data, investors and traders attempt to gain an edge in the markets by making informed decisions.

By using stock analysis, investors and traders arrive at equity buying and selling decisions. Studying and evaluating past and current data helps investors and traders to gain an edge in the markets to make informed decisions. Fundamental Research and Technical Research are two types of research used to first analyze and then value a security.

B. Why is Stock Market Analysis important?

Performing a research before making an investment is a must. It is only after a thorough research that you can make some assumptions into the value and future performance of an investment. Even if you are following stock trading tips, it ideal to do some research, just to ensure that you are making an investment that's expected to get you maximum returns.

When you invest in equity, you purchase some portions of a business expecting to make money upon increase in the value of the business. Before buying anything, be it a car or phone, you do some degree of research about its performance and quality. An investment is no different. It is your hard earned money that you are about to invest, so you must have a fair knowledge of what you are investing in.

C. What is Fundamental Research?

In fundamental research, you try to find out value of an equity share using the information provided in the financial statements of the company. The investor tries to analyse various aspects of the business like competitive advantage, financial soundness, quality of management and competition. The main aim is to ascertain the relative attractiveness of the underlying business.

Here, it is assumed that the market price doesn't reflect the true value of the company due to some uncontrollable external factors like investor sentiments. As the market will attain equilibrium, the real value will be equal to its market price in the long run. It believes that paying a higher price for a stock will affect return on investment adversely. Thus, by means of financial ratios, investors try to arrive at the true value at which a stock should ideally trade in the market.

D. Which key indicators are used in Fundamental Research?

Financial ratios form the pillars of fundamental research. Some of them are as follows:

1) Return On Equity (ROE)

1) Return On Equity tells you about how much does a company earns on shareholders' equity. It gives you information apart from a simple profit figure. It shows whether the operation of the company are efficient or not.
2) Return On Equity = [(Income – Preference Dividend)/ (Average Shareholders' Equity)]*100
3) While looking for this metric, an ideal ROE is one which is consistent, high and increasing. ROE of one company can be compared with its own past performance and with performance of other companies within the same industry. You may use it irrespective of the type of industry.

2) Debt-Equity Ratio (DER)

1) Debt-Equity Ratio shows the proportion of assets which is being used to finance the assets of the company. It indicates how much funds have been provided by the borrowers and owners of the company. This ratio can be expressed in numbers and in percentage.
2) Debt-Equity (D/E) Ratio = Total Debt/Total Equity
3) While looking for a debt-equity ratio, go for the ones which are lower than others and are decreasing in a consistent manner. You can compare D/E of one company with its own past performance and with performance of other companies within the same industry. You may use it to analyse performance of capital intensive industries like capital goods, metals, oil and gas.

3) Earning Per Share (EPS)

1) Earning Per Share is one such useful measure which the investors look for all the time. It shows the amount of money which the company is earning on every share. EPS of a company needs to increase in a consistent manner to show superior management performance.
2) Earning Per Share = (Net Income – Preference Dividend)/Weighted Average Number of Shares Outstanding
3) EPS of one company can be compared with its past performance and with that of other companies in the same industry. It can be used to ascertain what portion of profit is the company allocating to each outstanding share. Investors usually go for companies which have steadily increasing earnings per share. It can be easily used to compare performance across industries.

4) Price to Earning Ratio (PER)

1) Price to Earning Ratio compares the current market price of the share with the earnings per share. It tells you the price which the investors are willing to pay for the share depending on the current earnings.
2) Price to Earning Ratio = Current Share Price/Earning Per Share
3) This ratio also indicates the number of years that will be required to get back the initial invested capital by way of returns. You need to look for stocks which have a low price to earnings ratio. You can easily compare P/E ratio of a company with its past performance and also with other companies operational in the same industry. Ideally, this ratio is suitable to analyse performance of companies present in FMCG, pharmaceutical and technology sector.

E. What is Technical Research?

Technical research relates to the study of past stock prices to predict the trend of prices in future. It shows you the direction of movement of the share prices. With the help of technical research, you can identify whether there will be sharp rise or fall in the price of share. It is not dependent on recent news or events which has already been incorporated in the price of the share.

As the stock prices are dependent on investor psychology which keeps changing according to news and events, technical research emphasises the use of Stop-losses. It will save investors from suffering a big loss in future. Technical research gives meaningful results only for stocks which are high in demand and traded in huge volumes.

Technical research uses different types of charts like bar chart, candlestick chart; to understand the pattern of stock prices. Daily charts are used by short term traders to examine the immediate movement in the stock prices. Weekly / monthly charts are used by medium/long term traders to ascertain the probability to earn higher more in the long run.

F. How to invest in Equities?

While venturing into stocks, don't blindly believe on anyone else's advice. Conduct a thorough analysis before buying any stock. Do not invest more than 10% in any single company.

Many a time investing in equity becomes complex. In case you don't possess enough financial knowledge and are finding difficult it too difficult to understand, then just go for ClearTax Invest. Here, instead of directly investing in equities, you can try investing in Equity Funds. You can choose hand-picked equity funds in a hassle free and paperless manner.

Using the following steps, you can start your investment journey:

1) Step 1: Sign in at cleartax.in
2) Step 2: Enter your personal details regarding the amount of investment and period of investment
3) Step 3: Get your e-KYC done in less than 5 minutes
4) Step 4: Invest in your favourite debt fund from amongst the hand-picked mutual funds.

VI. TYPES OF STOCK MARKET ANALYSIS

There is no shortage of analysis for anyone interested in investing. The majority of stock market analysis can be lumped into three broad groups: fundamental, technical, and sentimental. Here's a close look at each.

A. *Fundamental Analysis*

The goal of fundamental analysis is to determine whether a company's future value is accurately reflected in its current stock price. Fundamental analysis attempts to estimate the value of a particular stock based on a variety of factors, such as the current finances of the company and the prevailing economic environment. Fundamental analysis also may include speaking with a company's management team and assessing how the company's products are received in the marketplace.

When a fundamental review is complete, the analyst may decide the stock is an attractive opportunity because the market has underestimated its future prospects. The analyst also may determine the stock to be a "hold" or a "sell" if the value is fully reflected in the price.

B. *Technical Analysis*

Technical analysts evaluate recent trading movements and trends to attempt to determine what's next for a company's stock price. Generally, technical analysts pay less attention to the fundamentals underlying the stock price. Technical analysts rely on stock charts to make their assessment of a company's stock price. For example, technicians may look for a support level and resistance level when assessing a stock's next move. A support level is a price level at which the stock might find support and below which it may not fall. In contrast, a resistance level is a price at which the stock might find pressure and above which it may not rise.
It is the study of stock price using predominantly the following three types of charts.

1) Line Charts
2) Bar Charts
3) Japanesee Candlestick Charts

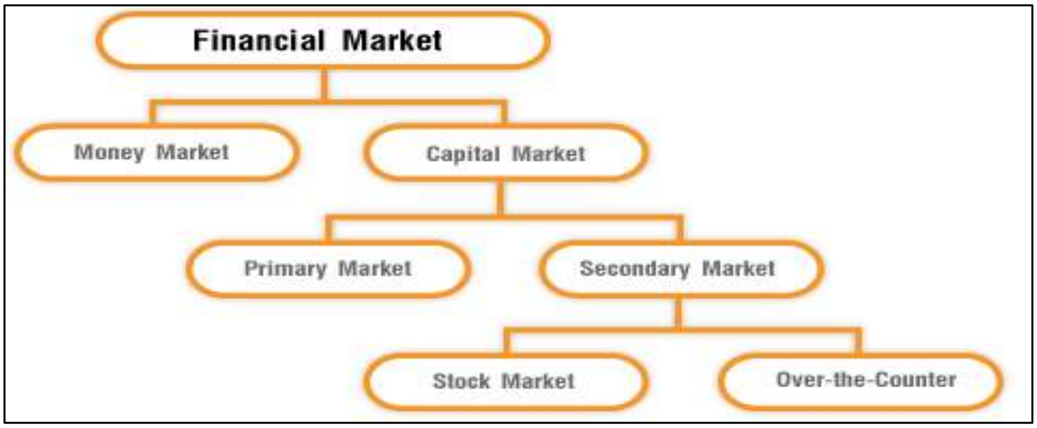
C. *Sentimental Analysis*

Sentimental analysis attempts to measure the market in terms of the attitudes of investors. Sentimental analysis starts from the assumption that the majority of investors are wrong. In other words, that the stock market has the potential to disappoint when "masses of investors" believe prices are headed in a particular direction.

Sentiment analysts are often referred to as contrarians who look to invest against the majority view of the market. For example, if the majority of professional market watchers expect a stock price to trend higher, sentiment analysts may look for prices to disappoint the majority and trend lower.

Which approach is best? There is no clear answer to that question. But it's important to remember three things: Past performance does not guarantee future results, actual results will vary, and the best approach is to create a portfolio based on your time horizon, risk tolerance, and goals.

Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.



VII. SEVEN WAYS TO ANALYZE STOCK

Investors depend on stock analysis to find potentially profitable stocks. Common ways to analyze stock include technical and fundamental analysis. Several components fall under fundamental analysis, including examination of a company's price-to-earnings ratio, earnings per share, book value and return on equity. Many investors also use the recommendations of financial analysts to analyze a stock. The type of stock analysis you implement is based on personal preference. Understand the different ways to analyze a stock to find the method that best fits your financial objectives.

A. *Technical Analysis*

Technical analysis studies the supply and demand of a stock within the market. Investors who use technical analysis believe that a stock's historical performance indicates how the stock will perform in the future. Little attention is given to the value of the company. Technical analysis places heavy focus on the study of trends, charts and patterns.

B. *P/E Ratio*

A common method to analyzing a stock is studying its price-to-earnings ratio. You calculate the P/E ratio by dividing the stock's market value per share by its earnings per share. To determine the value of a stock, investors compare a stock's P/E ratio to those of its competitors and industry standards. Lower P/E ratios are seen as favorable by investors.

C. *Earnings per Share*

A company's earnings per share show how efficiently its revenue is flowing down to investors. An increasing EPS is taken as a good sign by investors. According to NASDAQ, the higher a company's EPS, the more your shares are worth, because investors seek to purchase a company's stock when earnings are high.

D. *PEG Ratio*

The price-to-earnings growth ratio takes the P/E ratio a step further by considering the growth of a company. To calculate the PEG, you divide the P/E ratio by the 12-month growth rate. You estimate the future growth rate by looking at the company's historical growth rate. Investors typically consider a stock valuable if the PEG is lower than 1.

E. *Book Value*

Another method used to analyze a stock is determining a company's price-to-book ratio. Investors typically use this method to find high-growth companies that are undervalued. The formula for P/B ratio equals the market price of a company's stock divided by its book value of equity. Book value of equity is derived by subtracting the book value of liabilities from the book value of assets. Investors view a low P/B ratio as a sign that the stock is potentially undervalued.

F. *Return on Equity*

Investors use return on equity to determine how well a company produces positive returns for its shareholders. Analyzing ROE can help you find companies that are profit generators. ROE is calculated by dividing net income by average shareholders' equity. A continual increase in ROE is a good sign to investors.

G. *Analyst Recommendations*

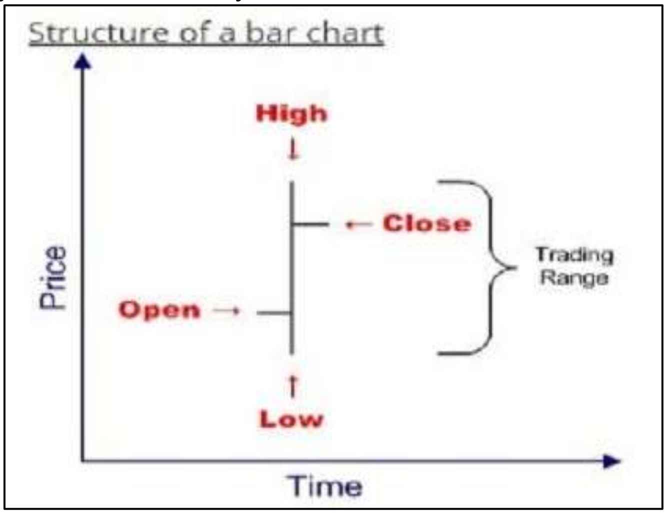
Many investors use analyst recommendations to quickly size up a stock. Analysts perform extensive fundamental and technical research, and they issue buy or sell recommendations. Before deciding to buy or sell shares, investors typically use analyst recommendations in conjunction with a stock analysis technique.

VIII. STOCK MARKET TREND

One way to identify stock trend is to check the stock making HHHL (Higher High and Higher Low) which is an uptrend or LLLH (Lower Low and Lower High) Confused? It is simple really. Any stock chart is represented by 4 prices (Open, High, Low and Close) E.g a stock may open at 100.50, 104.50 may be the high price, 98.25 may be the low and 100.20 may be the close.

On any stock chart these 4 prices will be indicated - whatever be the time frame, intraday, daily, weekly, monthly or yearly. The EXCEPTION to this is line chart, which shows only closing prices. (Hence the popularity of Japanese Candlestick charts, which can convey this information in a simple visual) Even Bar charts show this information, but Candlestick charts are easy on the eye.

Below are examples of Bar Chart and Candle Stick Charts. In this example the chart could have represented any time frame 5 minutes, 30 minutes, 1 hour, 1 day, 1 week, 1 month, 1 year etc.

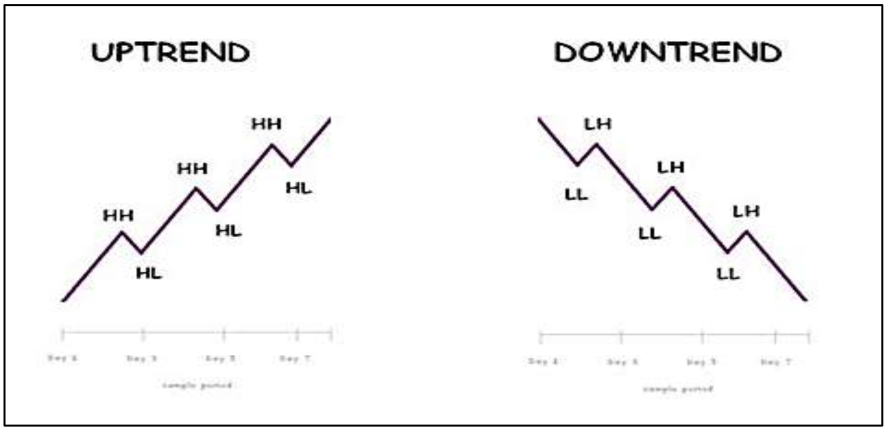


– The direction of the price movement at the given point of time is called a trend.
– At any given point of time, a price either has to rise or fall or remains standstill.

Hence trends are of three types-
1) Uptrend
2) Downtrend
3) Flat trend or choppy trend

A. Uptrend

1) During an uptrend, price line makes a constant formation of higher tops and bottom.
2) As long as this higher tops and bottom can be identified in the chart, we are bound to say that the trend is up.
3) During this uptrend, demand is much greater than the supply.
4) All the bottoms are higher which signifies that there is a constant demand in the market which is eventually coming at a higher price.
5) In a single word, there is a constant buyer at a comparatively higher rate and demand is thereby so strong that it pushes the price upward to a new horizon.



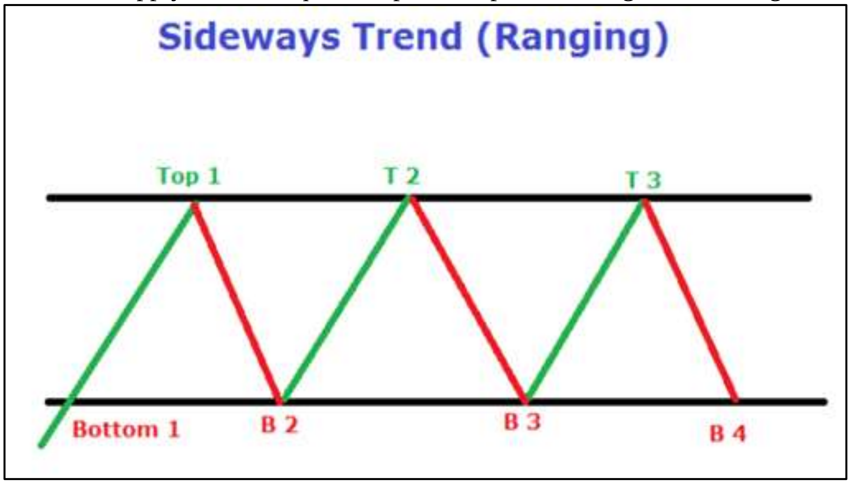
B. Downtrend

– During a downtrend, price creates lower tops and lower bottoms.

- All the subsequent tops would be lower than the previous one and as well as the bottom too.
- In a downtrend, supply is much more than demand.
- A lower top indicates that the sellers are interested to sell constantly at a lower price.
- Hence, supply is so strong that it pushes the price to a new lower dimension.

C. *Choppy Trend*

- A choppy trend or a flat trend is also popularly known as a sideways movement.
- During this choppy trend, price does not make any clear-cut top or bottom, rather it moves in a horizontal fashion.
- During this phase demand and supply both are equal and price keeps on moving within a range bound zone.



D. *Reversal Signal*

1) During an uptrend as per the definition, the price is expected to maintain a higher bottom.
2) But for any reason whatsoever might be in nature, if price violates the last higher bottom which it is not supposed to, then it shows that the uptrend has started getting into trouble.
3) Violation of the last higher bottom means that the buyers are not available anymore at higher rates.
4) After that, once price starts forming lower tops and bottoms, it confirms that uptrend has fully converted to downtrend.
5) In a downtrend, price continuously makes a lower bottom and lower tops.
6) After a series of lower tops and bottoms, when we find that price is refusing to make further lower bottoms rather it is making higher bottoms, it shows that demand once again started coming at a comparatively higher price and this is the first signal of a downtrend to an uptrend.
7) During an uptrend, all the fall in the price is an opportunity to buy at a comparatively lower price.
8) During a downtrend, the entire rise in the price is an opportunity to sell at a comparatively higher rate.
9) But during a choppy trend, we should not take any decision rather we should wait for a trend to emerge.
10) We must have noticed that during an uptrend price in between comes down or falls to rise again further. In a downtrend, price rise in between to fall again further.
11) So when a trend is choppy we are not supposed to do anything rather wait for a directional breakout either side.
12) It has been noticed that prices do not rise or fall in a straight line fashion.
13) During an uptrend, price falls and thereby gathers more energy again to rise further.
14) During a downtrend, price does not fall in a straight line fashion rather it goes up in between to fall again further. So there is always an opposite movement in a trend.

E. *Countertrend or Correction*

1) During an uptrend, price periodically falls and during a downtrend price periodically rises.
2) This opposite movement is called counter-trend.
3) So we can say that it is the trend and the counter-trend which together makes a complete trend.
4) Had there been no counter-trend, the market would not have existed at all because the linear movement is not possible in price.
5) The other name which is popularly known as for counter-trend is correction.

F. *Theory of Retracement*

1) Retracement implies correction of the previous movement.
2) In other words, retracement is the ornamental name of the countertrend.
3) According to the theory, 33% or the 1/3rd happens to be a strong support and a strong resistance level in a downtrend.
4) Normally this 33% is very difficult to break through.

5) But for any reason, if ever this 33% is broken, the price will get back to 50% retracement level.
6) This is popularly known as halfway retracement levels.
7) This 50% retracement level is very strong and it is not that easy for the price to break this level.
8) It has been said that if the existing trend is seriously up or down, no retracement will extend beyond 50%.
9) If we find that price could not honor this 50% retracement level, then the existing trend becomes questionable.

Although it has been suggested by the textbook that below 50%; 66% might provide support but practical observation has taught us that if 50% is broken, price does not honor any other level in the true sense, rather it comes down to the point or bottom from where it started rising which is 100% retracement.
Technically this is known as a double bottom.

A Fibonacci retracement is a popular tool among technical traders. ... In technical analysis, a Fibonacci retracement is created by taking two extreme points (usually a major peak and trough) on a stock chart and dividing the vertical distance by the key Fibonacci ratios of 23.6%, 38.2%, 50%, 61.8%, and 100%.

G. *Bottom-line*

1) Trend plays a key role in the stock market and a wise trader respects trend.
2) Though it may appear extremely simple it works wonderfully in stock market.
3) Someone has rightly said that trend is your friend.

IX. MAJOR WORLD STOCK MARKETS

Every major country has a stock exchange. Here are the top 10, ranked by total market capitalization. They are listed with the most quoted indices that are closest to measuring their performances:
1) New York Stock Exchange - NYSE
2) Nasdaq - The exchange also has an index by the same name.
3) Tokyo Stock Exchange - Nikkei 225.
4) London Stock Exchange - FTSE 100
5) Euronext - Euronext 100. Other European indices are the AEX (Amsterdam), BEL (Brussels), CAC (Paris), DAX (Germany), and PSI (Lisbon).
6) Shanghai Stock Exchange - Shanghai Stock Exchange
7) Hong Kong Stock Exchange - Hang Seng.
8) Toronto Stock Exchange - SPTSX.
9) Bombay Stock Exchange - SENSEX.
10) National Stock Exchange of India - NSE Nifty.
11) BM&F Bovespa (Brazil) - The index is also called BOVESPA.

X. OTHER FINANCIAL MARKETS

The stock market is just one type of financial market. Before you invest, make sure you are familiar with them all:

1) Commodities are usually traded in futures options, which makes them more complicated. They include grains, oil, and the strangely-named pork bellies.
2) Foreign exchange is where people buy and sell currencies. It's a very high risk because the values can change dramatically for no apparent reason very quickly.
3) Derivatives are very complicated securities that derive their value from the underlying asset, such as subprime mortgages. Individual investors should stay away. Even though they can offer huge returns, they can also deplete your entire life savings in a day.

XI. YOU CAN IDENTIFY STOCK TRENDS BY USING THESE TECHNICAL INDICATORS GIVEN BELOW

1) Moving Averages
2) Moving average convergence divergence (MACD)
3) Fibonacci Retracement
4) Support and Resistance

XII. TO IDENTIFY, WHEN A STOCK IS VERY TRENDING, UTILIZE THE FOLLOWING COMPONENTS:

1) P&F chart
2) 30-minute time scale
3) Trend line
4) 1-box reversal
5) Scaling method of Percentage
6) Box Size of 1 percent

So it may possible that the stock is fundamentally awesome but the market is not much bullish on the stock. It happens in opposite direction also - the stock is fundamentally stinky and the market is bullish on the stock. That's why it is useful to understand the trend of the stock.

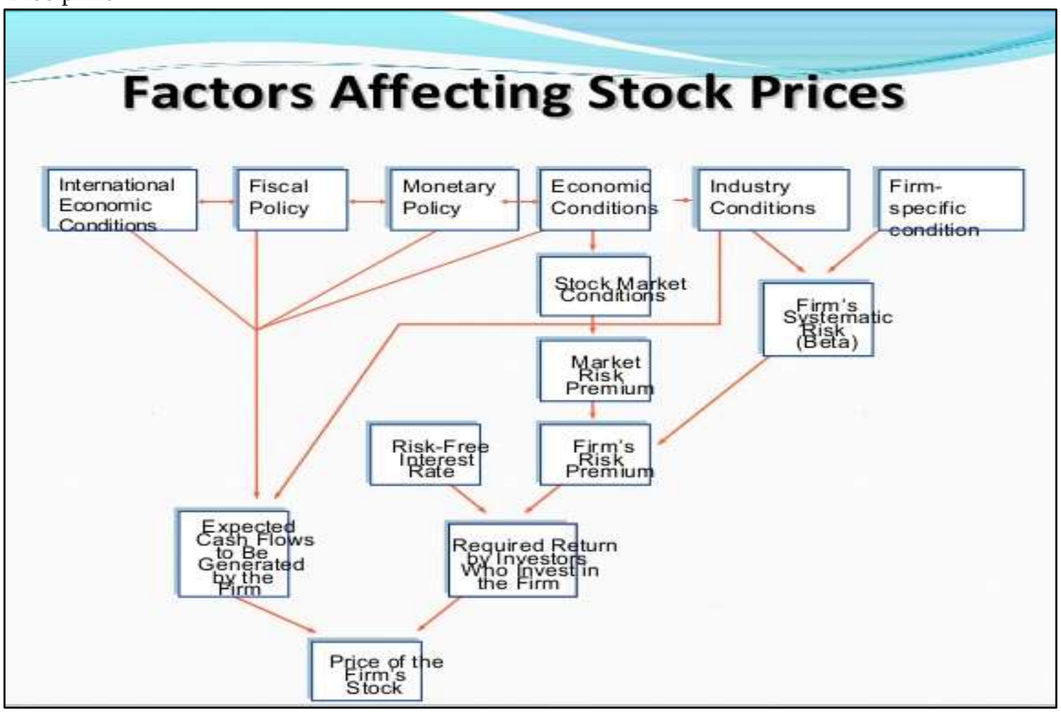
XIII. HOW TO READ A STOCK QUOTE

When you're done reading this section, you'll be able to understand the stocks table with relative ease.

1) Column 1: 52W high – The W represents week. This column highlights the highest prices at which a stock has traded over the past year (52 weeks, this number changes). Previous day's trading is not included.
2) Column 2: 52W low – The W represents week. The 2nd column is just the oppposite of the first. It highlights the lowest prices at which a stock has traded over the past year (52 weeks, this number changes). Previous day's trading is not included.
3) Column 3: Stock – This column lists the company name and type of stock. If you only see the name without special symbols or letters following the name, it means the type is common stock. "pf" for instance means preferred stock, while an "a" or "b" behind the ticker symbol represents class A and class b shares.
4) Column 4: Ticker – The ticker symbol represents or identifies the stock of a company. Each ticker symbol is unique. A ticker is usually written in uppercase and usually 3 to 4 letters long, although it can be longer. If you've wondered what are those symbols and numbers being flashed at the bottom of the screen, then you have seen the ticker tape. Most of the time, ticker symbols are used instead of the full name of the company.
5) Column 5: Div – The Dividend Per Share column indicates the annual dividend payment per share. If blank, it means that the company does not currently pay out dividends.
6) Column 6: Yield % – The Dividend Yield column is he percentage return on the dividend. This is calculated as annual dividends per share divided by the price per share.
7) Column 7: P/E – Stands for Price/Earnings Ratio. This is calculated by dividing the current stock price by earnings per share from the previous four quarters. For more details on this, see our P/E Ratio tutorial.
8) Column 8: Vol 00s – Is the Trading Volume column shows the total number of shares traded for the day. For the the actual traded volume, add two zeros or "00" at the end of the number listed.
9) Column 9: High – The high column is the maximum price at which the stock has traded for the entire day.
10) Column 10: Low – The low column is the minimum price that people have paid for the stock during the day.
11) Column 11: Close – This is the last trading price recorded before the market closed for that day. When the entire list for that stock is bold-faced, this implies that the closing price is up or down more than 5% than yesterday's close. As we have previously mentioned, stocks are volatile so do not expect to get the same price if you buy the stock the next day. Be aware that the prices can still change even if the exchange is closed for the day. The close is merely a figure that indicates the past performance of the stock and is generally used as an estimate of what you should expect to pay.
12) Column 12: Net chg – The net change column is the dollar value change in the stock price from the previous day's last recorded price. The + and – signs are indicators that the stock went up or went down, respectively. In finance news, you will frequently hear the newscaster saying "up for the day" meaning there was a positive net change.

XIV. REQUIREMENTS FOR BUYING A STOCK

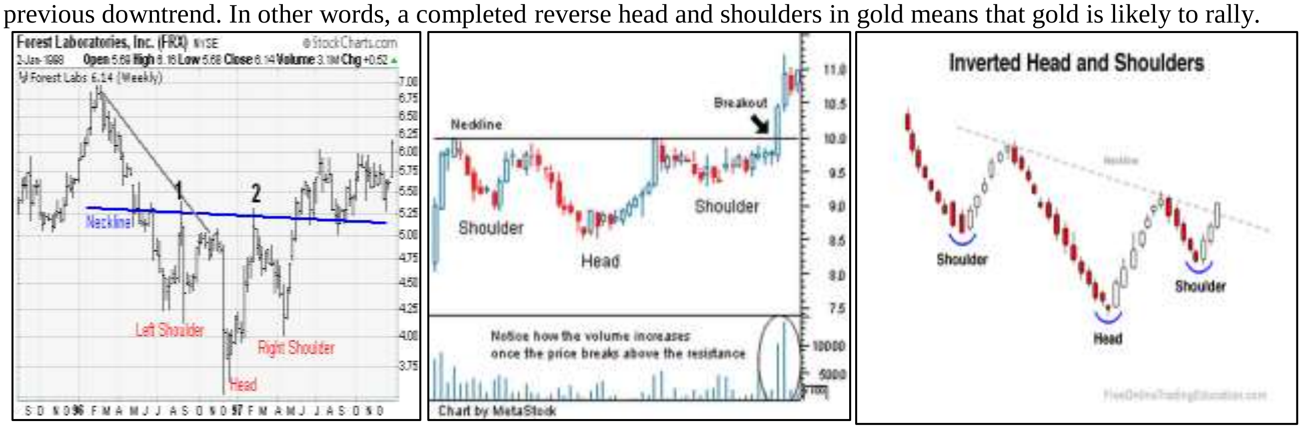
1) Right Knowledge
   - Which Stock
   - At what price
   - Minimum Target
   - Stop Loss
   - Time Frame
2) Right Infrastructure
3) Right Money Management
4) Consistent Discipline



XV. FACTORS HELPFUL IN PREDICTING STOCK MARKET TREND

A. Inverted Head and Shoulders

This head and shoulders bottom pattern usually signals a change in price trend. When it occurs the security is likely to move against the previous downtrend. In other words, a completed reverse head and shoulders in gold means that gold is likely to rally.



A head and shoulders pattern is a chart formation that resembles a baseline with three peaks, the outside two are close in height and the middle is highest. In technical analysis, a head and shoulders pattern describes a specific chart formation that predicts a bullish-to-bearish trend reversal. The head and shoulders pattern is believed to be one of the most reliable trend reversal patterns. It is one of several top patterns that signal, with varying degrees of accuracy, that an upward trend is nearing its end.

B. Double Bottom

A double bottom pattern is a technical analysis charting pattern that describes a change in trend and a momentum reversal from prior leading price action. It describes the drop of a stock or index, a rebound, another drop to the same or similar level as the original drop, and finally another rebound.

1) What is a Double Bottom?

The double bottom -- one of the many charting patterns used in technical analysis -- is characterized by a fall in price, followed by a rebound, followed by another drop to a level roughly similar to the original drop, and finally another rebound.

2) How Does a Double Bottom Work?

The double bottom charting pattern is among the most commonly occurring charting patterns, and closely resembles the letter "W". This "W" pattern forms when prices register two distinct lows on a chart, as illustrated with Bottom #1 and Bottom #2 in Figure 1 below.

Double bottom patterns can appear in charts that are intraday, daily, weekly, monthly, yearly, and longer-term.

According to technical analysts or "chartists", the second bottom can be rounded while the first bottom should be distinct and sharp. The pattern is complete when prices rise above the highest high in the formation. The highest high is termed the "confirmation point".

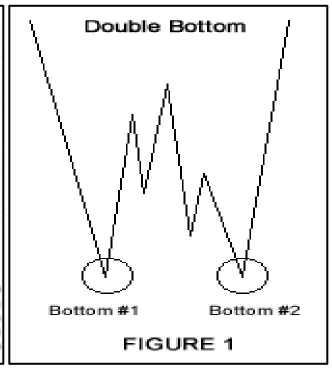


FIGURE 1

Typically, a double bottom's volume is greater on the left of the bottom than on the right. Volume usually is downward as the pattern forms and accelerates as the pattern hits its lows. Volume increases again when the pattern completes, punching through the confirmation point.

3) Why Does a Double Bottom Matter?

If accurately identified, the double bottom charting pattern can signal a fortuitous entry point for smart investors. To chartists, the double bottom formation indicates that the stock has reached a crucial support level and is encountering difficulty moving lower. That implies the stock has formed a low and is now positioned for an upward move.

C. Rounding Top & Rounding Bottom

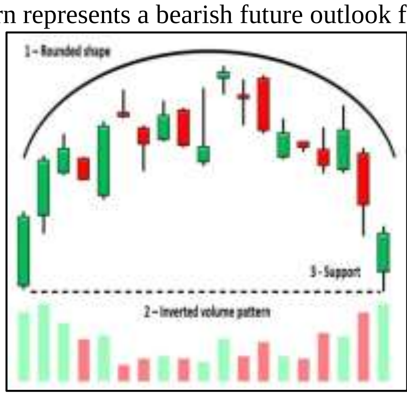
1) Rounding Top

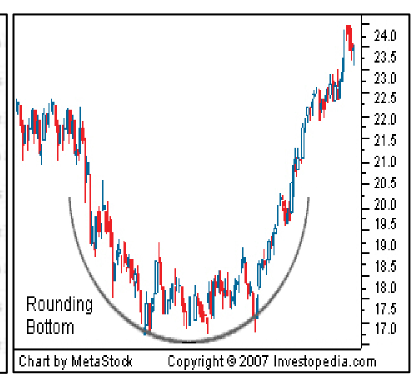
In a rounding top the security's price will increase to a new high and then steadily decreases from a resistance level to form the rounding top.

1) 'Major trend is positive, buy on any consolidation or minor dip; positive on ICICI Bank, SBI, Tata Steel'
2) Time to hedge positions; Kotak Bank, Infosys among 5 stocks that may see upside
3) Aggressive option traders can use short strangle to get benefit of time decay

Volumes will usually be the highest when the price is increasing and may experience another high on the downtrend during the selloff phase.

The pattern can develop over several weeks, months or even years, and is considered a rare occurrence by many traders. This pattern represents a bearish future outlook for the security.





D. Rounding Bottom

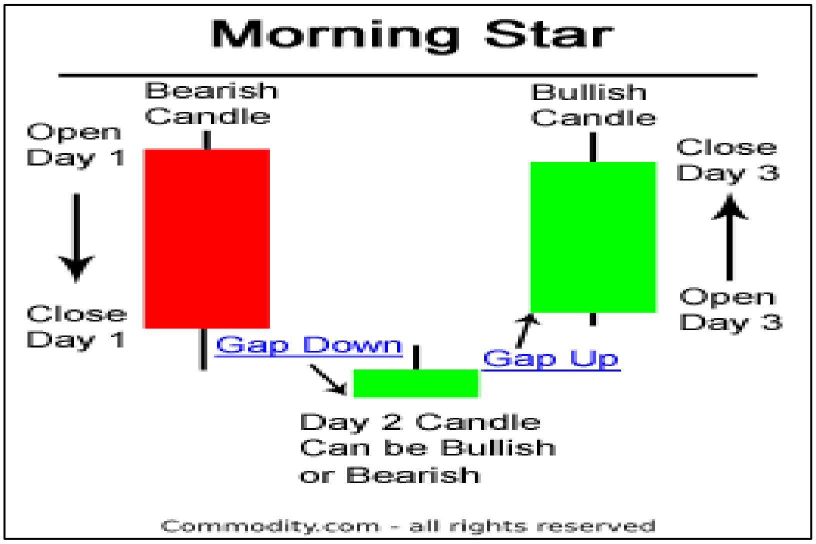
In a rounding bottom the price begins with a decreasing price trend until it reaches a support point. Once reaching the support point, the price will begin to trend higher. A trend line following the price's lows will form a U shape.
This pattern can also be followed by another rounding bottom forming a double bottom if the price resists a bullish trend. In a rounding bottom it is expected to result in a reversal and traders seek to take long positions at the support level to profit from future gains.

E. Breakout above Multiple Tops

Multiple tops is a reversal chart pattern that shows the failure of a security to break through to new highs on two or more occasions, and is therefore considered a sell signal of the security. ... The downside break of this support level would be conclusive evidence of the multiple-top pattern formation

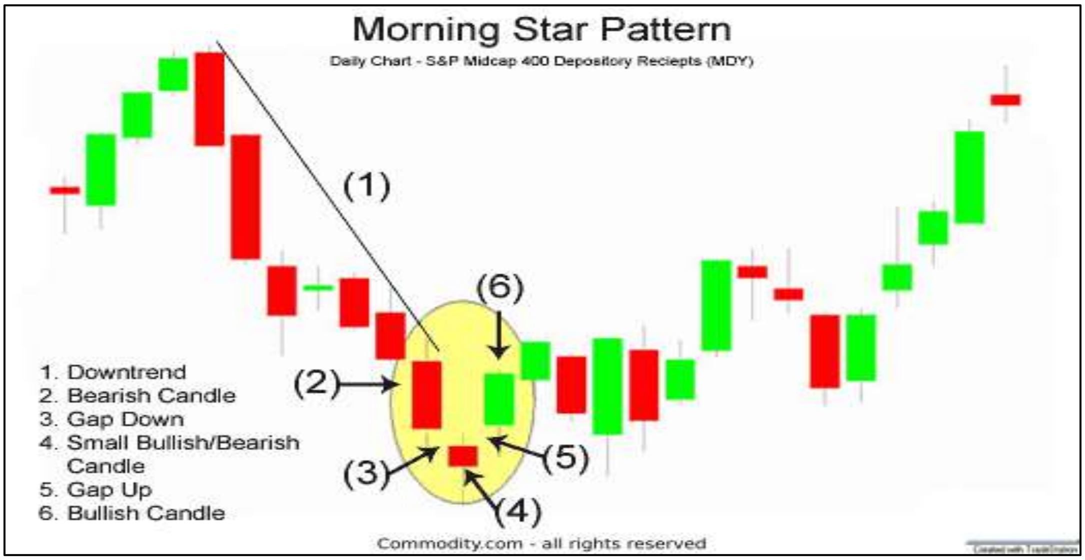
F. Morning Star Candlestick Pattern

The Morning Star Pattern is viewed as a bullish reversal pattern, usually occuring at the bottom of a downtrend. The pattern consists of three candlesticks:

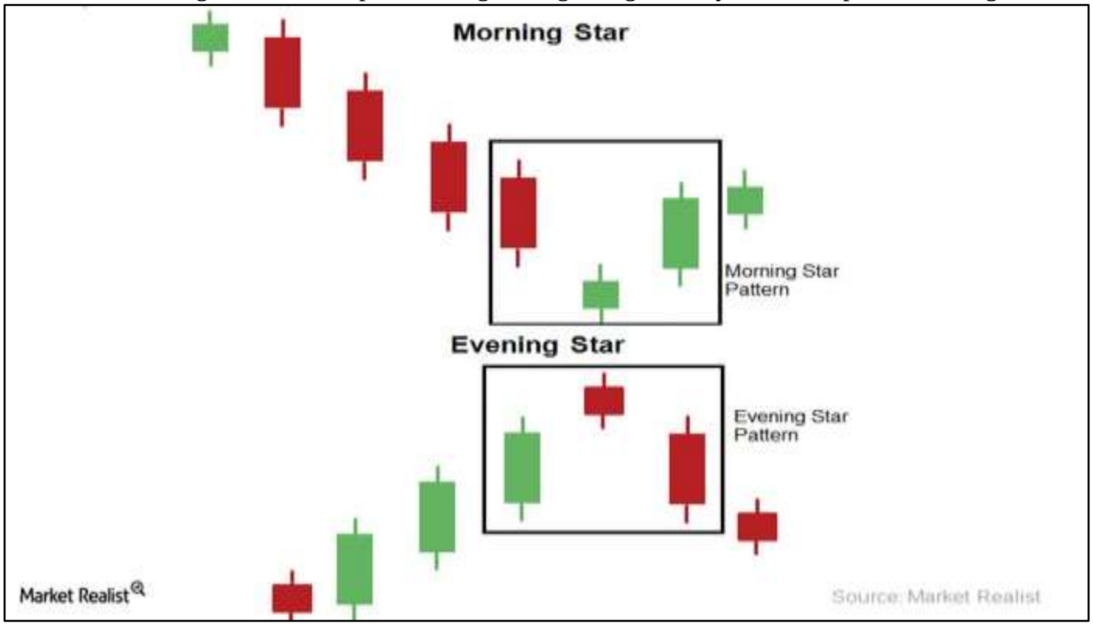


1) Large Bearish Candle (Day 1)
2) Small Bullish or Bearish Candle (Day 2)
3) Large Bullish Candle (Day 3)

The first part of a Morning Star reversal pattern is a large bearish red candle. On the first day, bears are definitely in charge, usually making new lows. The second day begins with a bearish gap down. It is clear from the opening of Day 2 that bears are in control. However, bears do not push prices much lower. The candlestick on Day 2 is quite small and can be bullish, bearish, or neutral (i.e. Doji). Generally speaking, a bullish candle on Day 2 is viewed as a stronger sign of an impending reversal. But it is Day 3 that holds the most significance. Day 3 begins with a bullish gap up, and bulls are able to press prices even further upward, often eliminating the losses seen on Day 1. Morning Star Candlestick Chart Example The chart below of the S&P 400 Midcap exchange traded fund (MDY) shows an example a Morning Star bullish reversal pattern that occured at the end of a downtrend:



Day 1 of the Morning Star pattern for the Midcap 400 (MDY) chart above was a strong bearish red candle. Day 2 continued Day 1's bearish sentiment by gapping down. However, Day 2 was a Doji, which is a candlestick signifying indecision. Bears were unable to continue the large decreases of the previous day; they were only able to close slightly lower than the open. Day 3 began with a bullish gap up. The bulls then took hold of the Midcap 400 exchange traded fund for the entire day. Also, Day 3 broke above the downward trendline that had served as resistance for MDY for the past week and a half. Both the trendline break and the classic Morning Star pattern could have given traders a potential signal to go long and buy the Midcap 400 exchange traded fund.



The bearish equivalent of the Morning Star is the Evening Star pattern (see: Evening Star). Past performance is not necessarily an indication of future performance. Trading is inherently risky.

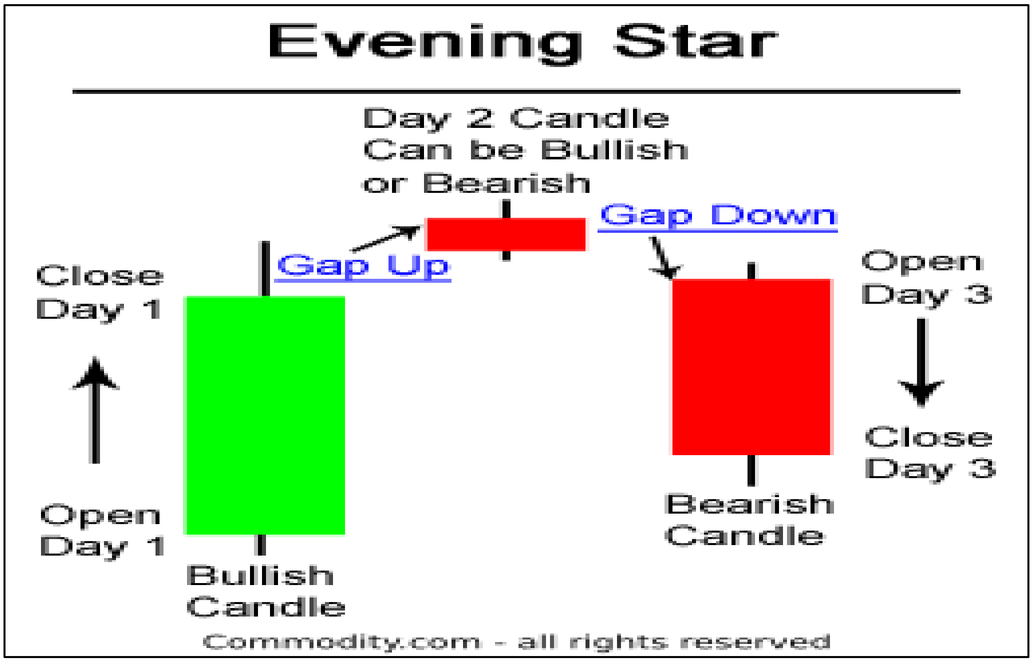
G. *Evening Star Candlestick Pattern*

The Evening Star candlestick pattern is also a reversal pattern. The pattern has three candles. It forms at the top of an uptrend. The first candle is any long and bullish candle. The second candle is a small and indecisive candlestick. The third candle is any long and bearish candle.

During an uptrend, high optimism causes heavy buying. The first candle forms. It's long and bullish. The indecision between the buyers and sellers forms the second candle. It's a small candlestick—or a Doji. The expectation of negative stock news in the market forms the third candle. It's long and bearish. When the volume increases and the price decreases, it suggests a change in trend.

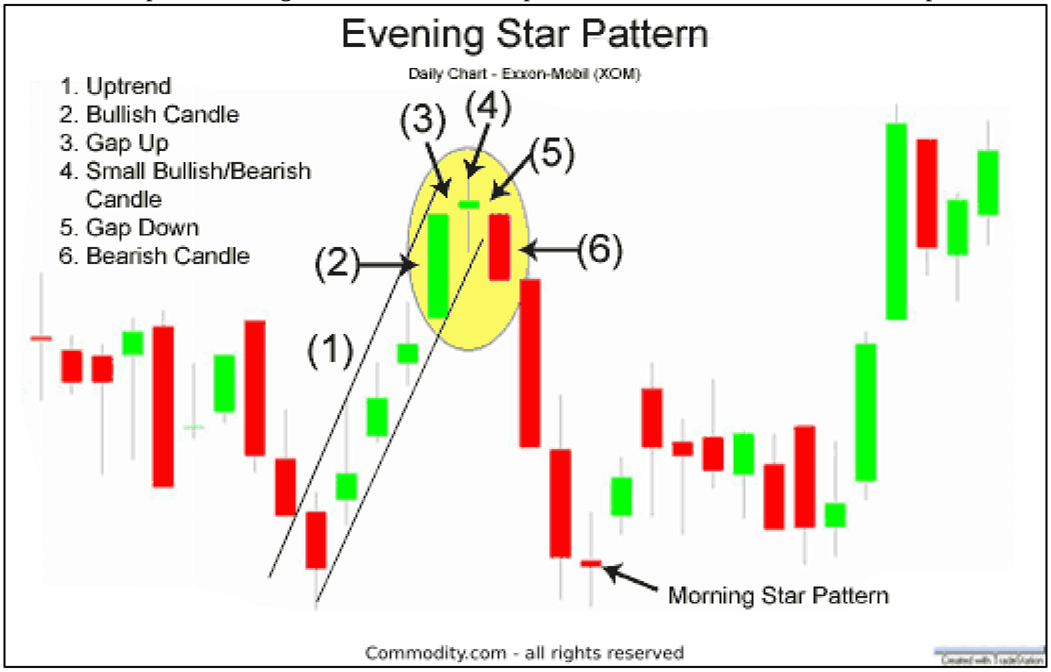
These patterns are used for trend identification. The Morning Star pattern is used as a buy signal. The Evening Star is used as a sell signal. It's advisable to use a combination of patterns and indicators to determine your trading strategy.

The Evening Star Pattern is viewed as a bearish reversal pattern, that usually occurs at the top of an uptrend. The pattern consists of three candlesticks:



1) Large Bullish Candle (Day 1)
2) Small Bullish or Bearish Candle (Day 2)
3) Large Bearish Candle (Day 3)

The first part of an Evening Star reversal pattern is a large bullish green candle. On the first day, bulls are definitely in charge, usually new highs were made. The second day begins with a bullish gap up. It is clear from the opening of Day 2 that bulls are in control. However, bulls do not push prices much higher. The candlestick on Day 2 is quite small and can be bullish, bearish, or neutral (i.e. Doji). Generally speaking, a bearish candle on Day 2 is a stronger sign of an impending reversal. But it is Day 3 that is the most significant candlestick. Day 3 begins with a gap down, (a bearish signal) and bears are able to press prices even further downward, often eliminating the gains seen on Day 1. Evening Star Candlestick Chart Example The chart below of Exxon-Mobil (XOM) stock shows an example a Evening Star bearish reversal pattern that occured at the end of an uptrend:



Day 1 of the Evening Star pattern for Exxon-Mobil (XOM) stock above was a strong bullish candle, in fact it was so strong that the close was the same as the high (very bullish sign). Day 2 continued Day 1's bullish sentiment by gapping up. However, Day 2 was a Doji, which is a candlestick signifying indecision. Bulls were unable to continue the large rally of the previous day; they were only able to close slightly higher than the open. Day 3 began with a bearish gap down. In fact, bears took hold of Exxon-Mobil stock the entire day, the open was the same as the high and the close was the same as the low (a sign of very bearish sentiment). Also, Day 3 powerfully broke below the upward trendline that had served as support for XOM for the past week. Both the trendline break and the classic Evening Star pattern gave traders a potential signal to sell short Exxon-Mobil stock. The bullish equivalent of the Evening Star is the Morning Star pattern (see: Morning Star). Past performance is not necessarily an indication of future performance. Trading is inherently risky.

H. Price Pattern

Top 5 Candlestick Patterns are Three Line Strike, Two Black Gapping, Three Black Crows, Evening Star, Abandoned Baby

I. Support

A stock support level is a value that the share price has declined to several times but not continued on to lower values. On a chart of the stock share price, the support level is indicated by a horizontal line with the share value coming down to the line several times before returning to higher price levels.

In general finance terms, support level is the level at which buyers tend to purchase or enter into a stock. It refers to the stock share price that a company rarely goes below. ... Support levels in stocks can be created by limit orders or simply the market action of traders and investors.

The concepts of support and resistance are undoubtedly two of the most highly discussed attributes of technical analysis. Part of analyzing chart patterns, these terms are used by traders to refer to price levels on charts that tend to act as barriers, preventing the price of an asset from getting pushed in a certain direction. At first, the explanation and idea behind identifying these levels seem easy, but as you'll find out, support and resistance can come in various forms, and the concept is more difficult to master than it first appears.

Support is a price level where a downtrend can be expected to pause due to a concentration of demand. As the price of assets or securities drops, demand for the shares increases, thus forming the support line. Meanwhile, resistance zones arise due to a sell-off when prices increase.

J. Verdict

Markets can foresee the trend quite efficiently. In view of active participation by, domestic institutions and a large number of investors. let us, therefore, respect the verdict of the stock market.



XVI. CONCLUSIONS & RECOMMENDATIONS

1) Having stock in a company means you are an owner.
2) How many shares of stock you have determines the extent of that ownership.
3) As part owner, you receive dividends and have voting rights.
4) A stock represents equity, while a bonds is a debt. Bonds are low-risk investment vehicles with guaranteed returns, while stocks involves more risk.
5) This is why stocks have a higher rate of return compared to bonds.
6) In investing, the riskier the investment the bigger the chance of making more money.
7) Investing in stocks can make you lots of money if you invest in the right company.
8) There are two main types of stocks: common and preferred.
9) Stocks can be further classified into different classes depending on the company.
10) The stock market is a place where people go to trade stocks.
11) Two of the most important stock exchanges in the United States are the NYSE and Nasdaq.
12) Purchase of stocks are commonly done through a brokerage.
13) You can also get a dividend reinvestment plan (DRIP).
14) Stocks are volatile.

15) Prices change according to supply and demand.
16) Many people have different opinions on why stock prices move the way they do.
17) One of the most important factors that influence prices is earnings.
18) Learning how to read stock tables or a stock quote is a must if you are planning to be a serious investor in stocks.
19) It is not hard to read a stock quote once you know what the different terms and symbols stand for.
20) Always remember the old stock market saying: "Bulls make money, bears make money, but pigs get slaughtered!". This will perhaps save you many times from losing on your investment.

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