



## UNIT-3

### FUNDAMENTAL ANALYSIS

#### 3.1 INTRODUCTION TO FUNDAMENTAL ANALYSIS

Fundamental analysis is a method of evaluating a security's intrinsic value by examining related economic, financial, and other qualitative and quantitative factors. It is commonly used in the context of stock and other investment analysis to make informed investment decisions. Here are the key components of fundamental analysis:

##### **Financial Statements:**

**Income Statement:** This provides information about a company's revenues, expenses, and profits over a specific period.

**Balance Sheet:** It shows a company's assets, liabilities, and equity at a specific point in time.

**Cash Flow Statement:** This reveals how changes in balance sheet and income statements affect cash and cash equivalents.

##### **Earnings Per Share (EPS):**

EPS is a key financial metric calculated by dividing a company's net income by its number of outstanding shares. It is an indicator of a company's profitability.

##### **Price-to-Earnings (P/E) Ratio:**

The P/E ratio is calculated by dividing the market price per share by the earnings per share. It gives an indication of how much investors are willing to pay for each dollar of earnings.

##### **Dividend Yield:**

Dividend yield is the annual dividend payment divided by the stock's current market price. It indicates the return on investment through dividends.



### **Book Value:**

Book value is the net asset value of a company, calculated by subtracting liabilities from assets. It represents the theoretical liquidation value of a company.

### **Growth Prospects:**

Examining a company's future growth potential is crucial. This can involve assessing the industry, market trends, and the company's strategies for expansion.

### **Management and Corporate Governance:**

Evaluating the quality of a company's management team is essential. This includes examining their track record, experience, and the company's corporate governance practices.

### **Competitive Positioning:**

Understanding a company's competitive advantage and its position in the market compared to peers is vital. This involves analyzing market share, product differentiation, and barriers to entry.

### **Macro-Economic Factors:**

Consideration of broader economic factors, such as interest rates, inflation, and overall economic conditions, can impact the performance of investments.

### **Industry Analysis:**

Understanding the industry in which a company operates is crucial. Factors such as competition, regulatory environment, and technological changes can significantly affect a company's prospects.

### **Risks:**

Identifying and assessing risks, including financial, operational, and market risks, is an integral part of fundamental analysis.



Investors often use a combination of these factors to form a comprehensive view of a company's financial health and future prospects. It's important to note that fundamental analysis is just one approach to investment, and investors may also consider technical analysis and other methods when making investment decisions.