



## Unit - 4

### Fundamental Analysis vs. Technical Analysis

#### Fundamental Analysis:

- Fundamental analysis involves evaluating the intrinsic value of an asset by analyzing its underlying economic factors.
- Focuses on studying financial statements, economic indicators, management quality, industry trends, and competitive positioning of a company or asset.
- Aims to determine whether an asset is overvalued, undervalued, or fairly priced based on its fundamental characteristics.
- Long-term oriented approach, often used by investors to make investment decisions for the medium to long term.
- Fundamental analysts believe that the market price of an asset will eventually reflect its intrinsic value.
- Key metrics include earnings per share (EPS), price-to-earnings (P/E) ratio, revenue growth, profit margins, and debt levels.

#### Technical Analysis:

- Technical analysis involves analyzing past market data, primarily price and volume, to predict future price movements.
- Focuses on studying charts, patterns, trends, and trading signals to identify buying and selling opportunities.
- Assumes that historical price movements repeat themselves and that market psychology drives price action.
- Short to medium-term oriented approach, often used by traders to exploit short-term price fluctuations.



- Technical analysts believe that all relevant information is already reflected in the market price, and thus, they solely rely on price and volume data.

- Key tools and techniques include moving averages, support and resistance levels, chart patterns (such as head and shoulders, triangles, and flags), and various technical indicators (like RSI, MACD, and stochastic oscillator).

### **Comparison:**

- Fundamental analysis focuses on the intrinsic value of an asset, while technical analysis focuses on historical price data and market psychology.

- Fundamental analysis is more suitable for long-term investors who are interested in the underlying value of a company or asset, while technical analysis is favored by short to medium-term traders looking to capitalize on price movements.

- Both approaches have their strengths and weaknesses, and many investors/traders use a combination of both fundamental and technical analysis to make informed decisions.

- Fundamental analysis may not be effective in predicting short-term price movements, while technical analysis may overlook important fundamental factors driving long-term trends.

### **Conclusion:**

- Fundamental analysis and technical analysis are two primary methods used by investors and traders to evaluate securities and make investment decisions.

- While they differ in their approach and focus, both have their merits and limitations, and the choice between the two often depends on an individual's investment goals, time horizon, and risk tolerance.

- Understanding the principles and techniques of both fundamental and technical analysis can empower investors to make more informed decisions in the dynamic financial markets.