

A STUDY OF TRADING STRATEGIES USING TECHNICAL ANALYSIS IN STOCK MARKET

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Abstract:

Investing prudently is an important part of financial security. An Individual is usually seeking for such associate investment alternatives that provide most and quicker returns. Because it is renowned proven fact that additional returns is being among additional risk. The one such different of those kind i.e. quicker returns with additional risk is that the investment available market. it's being determined over an amount of your time that the people are attracting towards stock exchange thanks to the liquidity and multifold returns, though the proportion of loss of funds invested with by the investors is additionally terribly high at some instances. Thus the present study is a small attempt to understand the traders using strategies through technical analysis in share market. Fundamental analysis involves analyzing the characteristics of a corporation so as to estimate its price. Technical analysis takes a totally completely different approach; it doesn't care one bit concerning the 'value' of a corporation or a commodity. The study involves how the trader can make proper entry and exit in stock market. It is a technique that claims the ability to forecast the future direction of prices through the study of past market data. The strength of analysis depends on the how accurately the price movements are predicted.

Keywords: Share market, risk, returns, liquidity, investments

Introduction:

The ways accustomed analyze securities and create investment choices fall under 2 terribly broad categories: basic analysis and Technical analysis. Basic analysis involves analyzing the characteristics of an organization so as to estimate its worth. Technical analysis very simply studies offer and demand in a very market in an effort to work out what directions, or trend, can continue within the future. In alternative words, technical analysis tries to know the emotions within the market by finding out the market itself, as critical its parts. If you understand the benefits and limitations of technical analysis, it can give you a new set or skills that will enable you to be a better trades or investor.

Technical analysis provides data supported weak kind market potency because it depends totally on past worth history, and relies on the assumptions that stock worth replicate each data that would have an effect on a corporation, worth move in trends and history repeats. Technical analysis is an estimating system to decide the future value developments in sight of the previous recorded information. It is a tool through that investors will anticipate the changes in costs over time primarily utilized by traders, market manufacturers and money analysts. Technical analysis indicators are value, value, volume so on to determine the entry, hold and exit time and levels. Charts find few activities to predict the changes within the shares of an organization. It's a way that claims the power to forecast the long run direction of costs through the study of past market information. The strength of analysis depends on the how accurately the price movements are predicted.

Technical analysts also widely use market indicators of many sorts, some of which are mathematical instruments of price, often including up and downs volume, advance/decline data and other inputs. These indicators are used to help assess whether an asset is trending, and if it is, the probability of its direction and of continuation. Technicians also look for relationships between price/volume indices and market indicators. Examples include the relative strength index, and MACD.

Benefits of Technical Analysis

- Technical analysis focuses on price movements.
- Trends are easily found.
- Patterns are easily identified.
- Charting is quick and inexpensive.
- Charts provide a wealth of information.

Popular Technical analysis indicators:

- Relative Strength Index (RSI)
- Moving Average Convergence Divergence (MACD)
- Bollinger Bands
- Stochastic
- Average Directional Index (ADX)

Technical analysis are extended to additional forms of markets; additional speculative assets, a variety of market sectors and economies of varied historical backgrounds, markets unionized with completely different technology levels, markets in operation underneath varied governments and governance styles; and even markets in operation in economies that dissent in their cultural backgrounds.

The Objectives of the study are briefly discussed below:

- 1) To analyze the share price movement of companies to find out returns.
- 2) To represent the trend of the stock prices through charts of the technical analysis.
- 3) To employ technical tools to analyze the price movements.
- 4) To suggest the investors on buy, hold or sell strategies based on technical indicators.

Literature Review:

Theoretical background:

Investment behavior is defined as how the investor's judge, predicts, analyze and review the procedures for. Decision making includes investment psychology, information gathering, defining and understanding, research and analysis.

Graham suggests two possible investment approaches:

1. Defensive: "[an investor] interested chiefly in safety plus freedom from bother"
2. Enterprising: You put a lot of time and effort into your investment operations.

Stock Market in India: Stock exchanges are the most prefer type of markets for securities whether of government and semi-government bodies or other public bodies as also for shares and debentures issued by the joint-stock companies. In the stock market, purchase and sale of shares are made in condition of free competition. The bargains that are struck in the trading ring by the members of the stock exchanges are at the fairest prices determined by the basic laws of supply and demand.

Survey studies, theories and empirical work concerning technical trading methods. Most survey studies indicate that technical analysis has been wide utilized by market participants in futures markets and exchange markets, which a minimum of half-hour to 50 %, 40% of practitioners regard technical analysis as a crucial think about determinative value movement at shorter time horizons up to six months.

Research Papers:

Technical Analysis on Selected Stocks of Energy Sector was undertaken by R. Chitra. In this study Technical Analysis of the stock market relating to affecting the supply and demand of stocks and also helps in understanding the intrinsic value of shares and to know whether the shares are undervalued or overvalued. The securities market indicators would facilitate the capitalist to spot major market turning points. This can be a big technical analysis of designated corporations that

helps to grasp the worth behavior of the shares, the signals given by them and also the major turning points of the market price.

A study on Stock price movements was made by G. B. Sabari Rajan & Dr. S. Parimala. This study reviewed that through technical indicators. Stock market is a public market for the trading of companies stocks and derivatives at an agreed price. Investment analysts typically examine historical value and volume knowledge and alternative market connected indicators to spot past trends and patterns in value movements. The study is purely based on secondary data which has been collected from NSE website, journals and magazines.

Persistent Profitability of Technical Analysis on Foreign Exchange Markets was undertaken by Menkhoff, L., and M. Schlumberger Menkhoff (1997) the behavior of exchange professionals, dealers and fund managers in European country in 1992. The results showed around eighty seven of the exchange dealers and thirty fifth professionals use technical analysis in their higher cognitive process. Around thirty fourth of times it had been used for intraday higher cognitive process and four-hundredth for selections starting from two to six months.

Research Methodology:

Need of the Study:

Forecasting stock costs is completed by mistreatment elementary also as technical analysis. In spite of assorted tools out there, investors and analysts face problem in starting up with right statement of a company's share costs. Predicting stock movements is difficult especially when the markets are highly volatile. Here we will study that how Technical indicators play a prominent role in predicting stock movements and also determining entry and exit points in order to avoid losses and gain profits. Hence this study is taken up in order to use technical indicators and suggest the investors on buy-hold and sell strategies by looking at the price movements in selected securities.

Research Design:

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to mix relevancy to the research purpose with economy in procedure. Here for this study, researcher has collected secondary data from various websites, so descriptive research design is adopted and exploratory design is used to give buy, sell and hold call.

The present study is limited to the companies of NIFTY. The study helps to find out the future trends of selected top 5 sectors based upon their index capitalization, and among them top 5 companies of each sector based upon market capitalization.

Data Analysis and Interpretation:

Index capitalization rate of all the sectors of NSE was identified on 01-Nov-2019. Out of these sectors top 5 Sectors were been selected for the study.

Sectors	Index capitalization (%)
Banking/Finance	31.38
Technology	16.86
Oil & Gas	14.35
Automotive	5.46
Telecom	3.89
Metals & Mining	3.36
Tobacco	2.91
Engineering	2.83
Food & Beverage	2.67
Chemicals	2.54

Table No.4.2: Analysis of Market capitalization

Based upon top 5 selected sectors top 5 companies have been selected based upon their market capitalization.

Companies	Market Capitalization (Cr)
HDFC	645572.34
TCS	750533.23
IOC	99554.73
Maruti Suzuki	189799.92
Bharti Airtel	285598.43

1. HDFC Bank



Analysis of HDFC BANK

Interpretation:

- The share price of the HDFC Bank witnessed a high time peak on 20/01/2020 to the extent of 1304, RSI was 43.36, and 11.09 million shares were traded. The average 1 year return of the stock is 5-8.4%.
- The scrip had a bullish situation from 01/11/2020 to 15/11/2020. Where in the MACD gave the signal of selling on 19/11/2020.
- The scrip had the resistance level at 1304, which was all time high on 19/12/2019 and 20/01/2020. Support level was broken by the scrip on 21/01/2020 of 1244.0rs which indicates that there will be a severe downtrend in the scrip
- MACD gave a continuous sell signal and no buy calls were given, in the entire study period, and hence it was interpreted to avoid the scrip for few days. RSI also did not gave a very clear picture of scrip getting oversold and overbought throughout the period.

Recommendation:

- Short term and Long term buyers avoid the scrip to buy for few days till the MACD shows the positive sign of buying.
- Short at the level of 1200, 1150 and 1120

2. Tata Consultancy Services (TCS)



Analysis of Tata Consultancy Services (TCS)

Interpretation:

- The share price of the company witnessed a high time peak on 01/08/2020 to the extent of 2255, RSI was 65.13 which mean the share has maintained a good strength, and 5.20 million shares were traded.
- The average 1 year return of the stock is -6.56% which concludes that long term investors should avoid investing in this scrip.
- MACD gives the first sell point on 15/11/2019 as the signal line and moving average intersects above the zero line and the sell point was generated on 02/01/2020. Whereas two buy points were generated on 5/12/19 and 13/12/19.
- There is a support level at 2020.90, if in case share breaks this support level then investor is signaled to sell the scrip.
- If the upper circuit of 2255 breaks and remains constant for few days than this scrip will be beneficial for the long term investment.
- The scrip was in a bearish situation from 15/11/2019 to 26/11/2019, so it was avoided to buy till
- The MACD does not give the signal to buy.

Recommendation:

- Short and medium term buyers buy at 2035 with the targets of 2160-2250 with a stop loss of 2157
- Long term buyers should avoid this scrip as yearly returns are negative.

3. Indian Oil Corporation



Analysis of Indian Oil Corporation

Interpretation:

- The share price of the IOC witnessed a high time on 01/11/2019 to the extent of 144, RSI was 49.72, and 18.29 million shares were traded.
- There was a continuous downtrend in the share price after the support level of 141.30 on 20/10/2019 was broken. The scrip had a bearish situation for more than one month. MACD gave a sell call on 23/10/2019 to book some profit and get the position cleared.
- The scrip was constant from 14/12/2019 to 07/01/2020 and again it showed a downtrend.
- Technically the chart is too weak, MACD continuously signaled bearish situation and as such no buy calls were suggested for few days from 17/01/2020, and also RSI gave the clear picture of overselling of share on 22/01/2020.

Recommendation:

- . Short and long term buyers and sellers avoid this scrip as there is a downtrend.

4. Maruti Suzuki



Analysis of Maruti Suzuki

Interpretation:

- The share price of the Maruti Suzuki Company witnessed a high time peak on 17/01/2020 to the extent of 7520.15, RSI was 63.14 and 750.94k shares were traded. The average 1 year return of the stock is -20.15%.

- The scrip had a bearish situation from 4/11/2020 to 11/11/2020. Wherein the MACD gave the signal of selling on 5/11/2020. And after that the scrip showed a downtrend for a week as it was moving towards the zero line. On 13/12/2020 MACD gave a buy signal at Rs7140 for short term profit booking.
- Technically the scrip is very weak as from 20/01/2020 MACD has shown the downtrend and also the shares are been oversold.
- Support level for this scrip is @ 6886 ones if this level breaks than it will be having a big downtrend.

Recommendation:

- Long term investors buy below 6800 levels
- Short term investors try to avoid this scrip or can short as technically the scrip is too weak.

5. Bharti Airtel



Analysis of Bharti Airtel

Interpretation:

- The share price of the company witnessed a high time peak on 23/01/2020 to the extent of 524.25, RSI was 80.47 which means the shares are overbought, and 23.39 million shares were traded. The average 1 year return of the stock is 52.27%.
- Similarly MACD gives the signal of buying on 15th Nov, 7th Dec & 27th Jan, as it can be seen that there is upward movement in the share price
- There is a support level at 458. If in case share breaks this support level then investor is signaled to sell the scrip
- If the upper circuit of 524.25 breaks then this scrip will be making new highs.

Recommendation:

- Short and medium term buy at 395-410 with the targets of 458-510.
- Long term buy above 455-480 with the targets of 520-545.

Findings:

1. HDFC Bank:

- MACD gave a continuous sell point on the charts, so it was recommended to avoid this scrip.
- The scrip broke the support level, so it was predicted that it would have a down trend.

2. Tata Consultancy Services (TCS):

- Resistance level and support level is provided.
- Twice buy and sell point occurs within 3 months of duration.
- Scrip had a bearish situation in the month of November.
- A continuous fluctuation in prices has been found in the month of November and December. But got stabled in the month of January.

3. Indian Oil Corporation:

- Scrip had a bearish situation in the month of November, remained constant in the month of December and again showed a downtrend from the month of January.
- Resistance level is provided and thus the price started declining in November.
- MACD gave continuous sell calls from the month of November.
- RSI gave twice the overselling points, which shows that investors are getting there position cleared from this scrip.

4. Maruti Suzuki:

- Continuous fluctuation in the price of share has been observed
- Support level is provided in December and January, and if the scrip breaks this levels than there might be a severe downfall in the price of scrip.
- There was continuously a bearish and bullish situation on weekly basis
- MACD gave a continuous sell calls.

5. Bharti Airtel:

- Resistance level is provided thus the price started increasing from December.
- In each month buy point occurs.
- Overbuying of shares has been seen in the month of January.
- Support level at 458 is been provided.

Suggestions:

- 1) The investors should be trained to use the technical analysis tools. Since it will help them in their day to day investment to get more returns.
- 2) Fundamental analysis can also be suggested to the investors together corporate, growth of earning and profitability.
- 3) The investors can also use more number of charts which will depict a true picture on the movement of the securities.
- 4) The investors should analyze market data in real time; plan your own market timing strategy to make money, regardless of upwards and downwards trending markets.
- 5) The investors should mainly watch the business, economic, social and political factors that affect the prices of the securities.

Conclusion:

Today, the health of stock exchange is solely dependent on the pattern of investment by the investor. As the financial market goes through brisk changes, investors should look for right opportunities keeping in tune with the dynamics of market environment. Financial market reflects a country's economic growth as they supply necessary financial inputs for the development of the country. Technical analysis gives investor a better understanding of the stocks and also gives them right direction to go on further to buy or sell the stocks. Therefore, the small investors and traders should not blindly make an investment rather they should analyze using the various tools to check if the scrip is technically strong.

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