

Subject: Concepts in valuation

Topic: Interpreting Financial Market Data (Unit III)

B.com. Semester: Second

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Interpreting Financial Market Data

Financial market data is price and trade related data for a financial instrument reported by a trading venue such as stock exchange. Market data allows traders and investors to know the latest price and see historical trends for instruments such as equities, fixed income products. For the analysis of financial market information fundamental and technical analysis of the organization is done with the help of various methods such as charts and so on.

Concept of Fundamental Analysis

This analysis helps forecast the profitability of a company and make an estimate of the futures cash flow from a common stock. This analysis involves an in depth analysis of all the factors that will affect the profitability of the company. The factors that fundamental analysis study are classified as- Economic factors, Industry factors, and Company related factors.

Concept of Technical Analysis

Technical analysis is studying the movement of the stock and predicts the future market of the stock based on the analysis of past behavior. This analysis includes many charts to show the price changes in a certain time period.

Fundamental Analysis Vs Technical Analysis

Basis of difference	Fundamental Analysis	Technical Analysis
Basis of forecasting	The main focus of this analysis is on the comprehensive economic health of the country; industry related input and published data analysis. Prices, expected returns and risks are the basis	The market behavior governs the technical analysis. Depending on the earlier pattern of demand and supply, the security prices are estimated.

	for analyzing the stock.	
Tools for analysis	Fundamental analyst is commonly using the financial analysis and statistical forecasting method.	Technical analysis includes the financial variables charts and specific quantitative tools.

Charts

Charts are a graphical representation of data in form of a graph or a diagram. In case of the technical analysis, charts are considered to be the easiest instrument for carrying out the analysis of changes witnessed in the individual stock price. Charts are of various types-

Line chart

A line chart is used to present the closing price of stock prevailing on successive days in the form of a graph. In order to draw the line chart, different data points are joined with each other to form of line. Financial analyst considers line charts as the most basic common form of chart.

Bar chart

There are a number of vertical/horizontal bars in bar chart, which are used to represent the changes in price for a specific day. The lowest and highest price of the day can be easily observed by an analyst. Each bar is represented with a small cross to depict the closing price of the day.

Point and figure chart

Not only for estimating the price changes in common stock but also to predict the reverse pattern, always can use point and figure chart. By analyzing point and figure chart technical analyst can determine the suitable time for selling and buying bonds.

Candlestick chart

The different price positions of a stock such as open, high, low and close are represented by the candlestick charting technique and it highlights the range

between the opening and closing price of stock. These charts are commonly used to present the day to day prices of stock.

Terms used in stock quotes

Opening price

The opening price is the price at which a security first trade when an exchange opens for the day.

Closing prices

The closing price is a security's trading price at the end of a day's business in a financial market.

52 week range

The range of time frame between the highest price and lowest price a stock has traded over this 52 week range.

Volume

The number of shares that were traded in given time period

Market cap

It is the market capitalization, which is arrived by multiplying the company's total number of shares by its current price.

EPS

Earnings per share are a profitability measure derived from the accounting data of a company. EPS is calculated by dividing the net profit after tax and preference dividends by number of equity shares.

P/E ratio

Price earnings ratio is the ratio between the price of the shares and its EPS. This ratio is used to find out the companies having higher values.

Dividend

Dividend is the portion of the company's profit, which the company pays to its share holder as a compensation for investment in the company.

Dividend yield

The percentage of per share paid on yearly basis related to the share price is defined as dividend yield.

Shares short

The total shares which are to be sold short are known as share short. These shares are borrowed because the prices of such shares are expected to fall down in future.

Net change

This is the value change in the stock price as compared to the closing price of the previous day. When the net change was positive, it is said that the stock is being 'up for the day'.

Beta

Beta is used to measure of volatility of stock as compared to the market as a whole. A beta of 1 means the stock moves up or down more quickly than the market overall, a beta between 0 to 1 means the stock does not move as much as the market, and a negative beta means the stock moves in the opposite direction of the market.

Ticker symbol

Ticker symbol is the unique alphabetic name which helps identify the stock. Ticker name helps an investor search the company in the scroll list. On financial channels the scroll shows the company's ticker name with the latest price alongside the symbol.