A Study on Analysis of Equity Share Price Behavior of the Selected Industries

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ABSTRACT

The Indian capital Market has witnessed a tremendous growth. There was an explosion of investor interest during the nineties and an Equity Guilt emerged in statutory legislations has helped the capital market. Foreign Exchange regulation act is one such legislation in this direction

An important recent development has been the Entry of Foreign Institutional investors are participants to the primary and secondary markets for the securities. In the past several years, investments in developing countries have increased remarkably. Among the developing countries India has received considerable capital inflows in recent years. The liberalization policy of the government of India has now started fielding results and the country is poised for a big leap in the industrial and economic growth. The Economy of the country is mainly based on the development of the corporate sectors. A better understanding of the stock market trend will facilitate allocation of financial sources to the most profitable investment opportunity. The behavior of stock returns will enable the investors to make appropriate investment decisions. The fluctuations of stock returns are due to several economic and non-economic factors. The study is aimed at ascertaining the behavior of share returns. This project analyses the equity share fluctuations in India Selected Industry. It also measures the strength of the trend and the money involved in investing in the stocks. Simple moving average model is applied for selected companies which would give the investor a sell signal or buy signal.

In India most of the industries require huge amount of investments. Funds are raised mostly through the issue of share. An investor is satisfied from the reasonable return from investment in shares. Speculation involves higher risks to get return on the other hand investment involves no such risks and returns will be fair. An investor can succeed in his investment only when he is able to select the right shares. The investors should keenly watch the situations like market price, economy, company progress, returns, and the risk involved in a share before taking decision on a particular share. This study made will help the investors know the behaviour of share prices and thuscan succeed.

Keywords: Equity, Share; Finance; Industrie

INTRODUCTION

The Indian capital Market has witnessed a tremendous growth. There was an explosion of investor interest during the nineties and an Equity Guilt emerged in statutory legislations has helped the capital market. Foreign Exchange regulation act is one such legislation in this direction.

An important recent development has been the Entry of Foreign Institutional investors are participants to the primary and secondary markets for the securities. In the past several years, investments in developing countries have increased remarkably. Among the developing countries India has received considerable capital inflows in recent years. The liberalization policy of the government of India has now started fielding results and the country is poised for a big leap in the industrial and economic growth. The Economy of the country is mainly based on the development of the corporate sectors.

FACTORS AFFECTED FOR THE SHARE PRICES

Share prices are affected by the following factors. The major factors are

* Inflation
* Deflation
* Interest Rates
* Exchange Rates

INFLATION

An increase in the cost of goods and services over a period of time. Decreases the purchasing power of the dollar. It is usually measured by the consumer price index.

INTEREST RATES

The fee paid to a leader to borrow its money or a penalty charged for late payments usually shown as annual percentage rate.

DEFLATION:

The drop in the cost of goods and services over a period of time. Usually caused by a shrinking supply of money or credit, or reduced spending by consumers or government. Boosts Purchasing power of the dollar.

EXCHANGE RATES:

The price of one country's currency expressed in another country's currency. In other words, the rate at which one currency can be exchanged for another.

REVIEW OF LITERATURE

Bennet, James A.et.al (2001) have conducted a study on "can money flow predict is defined as the difference between up stick and down stick dollar trading volume. The study says that despite little published research regarding its usefulness, the measure has become an increasingly popular technical indicator because of its own means. The study summarizes its most important finding that money flow appears to predict across- sectional variation in future returns. Their predictive ability is sensitive, however, to the method of money flow measurement (eg. The exclusion or inclusion of block trades) and the Forecast horizon.

Daigler Robert T.et.Al., (1981)2 have conducted a study on the development and testing of trading rules on the New York stock Exchange which are based on the discriminant Function. The study analysis the ability of daily technical indicators to predict future changes in the "standard and poor's 500 index". The study also signifies that the Technical indicators possess predictive ability to the extent that investor's possess predictive ability to the extent that investors believe they contain information on Future Market developments, and/or to the extent that the indicators reflect changing expectations among market participants. The study summarizes that the initial analysis of the relationship between daily technical data and future market movements is accomplished by examining the statistical difference between the group means (computed via the usual F test applied to the group means estimated from the discriminant function) of predicted "up days" versus predicted "down days" ("Up" and "down" days are define shortly). The statistical analysis is extended by classifying the observations into groups.

Micko Tanaka Yamawaki et. Al., (2007) 7 have conducted a study on the Adaptive use of Technical Indicators for predicting the Intra-Day price movements. The researcher has proposed a system to select the best combination of technical indicators and their parameter values adaptively by learning the patterns from the tick-wise financial data. In this paper, the researcher has shown that this system gives good predictions on the directors of motion with the hitting rate at 10 ticks ahead of the decision point as high as 70% for foreign exchange rates (FX) in five years from kl1996 to 2000 and 8 different stock prices in NYSE market in 1993 The study concludes that the tick-wise price time series carry a long memory of the order of at least a few minutes, which is equivalent to 10 ticks.

OBJECTIVES OF THE STUDY

* To analyze the share price behavior of the selected industries.
* To predict the day to day Fluctuations in the stock market using Technical Analysis
* To study the price movements in the stock exchange
* To study the current trend and strength of the trend of selected industry
* To recapitulate the key findings and offer suggestions to investors.

RESERARCH METHODOLOGY

Research Design

This project analyses the equity share fluctuations in India Selected Industry. It also measures the strength of the trend and the money involved in investing in the stocks. Simple moving average model is applied for selected companies which would give the investor a sell signal or buy signal.

Data and Sources of Data

Secondary data was used for the analysis print media and internet has been used for data collection. The data also obtained by the national stock exchange website (www.nscindia.com). For the purpose of this study the daily closing prices of 15 companies included in National stock exchange were taken and their price movement are computed and studied. The sectors selected are as follows:

* Automobile
* Banking
* IT
* Oil Exploration and Refinery
* Tele communication

* Automobile
  * Tata Motors Ltd.
  * Maruti Suzuki India Ltd.

* Bank
  * State Bank of India
  * ICICI Bank Ltd.

* Oil Exploration and Refineries
  * Oil & Natural Gas Corporation Ltd.
  * Reliance Petroleum Ltd.

* IT
  * Infosys Technology Ltd.
  * TATA Consultancy Services Ltd.

* Telecom

* Bharati Airtel Ltd
* Reliance Communications Ltd.

The purpose of this analysis is to false the 8 months solid data from the National Stock Exchange website and to predict the market trends in each of the above mentioned companies.

METHOD OF SAMPLING

Since for the purpose of this analysis five sectors are taken and from the five sectors two companies are taken in each sector. Therefore the sampling used for selection of the sectors is judgmental sampling based on the contribution of each sector to the GOP of the country. The three sample companies in each sector are selected based upon the Market capitalization of the companies in those sectors. In this method, items for the sample are selected on certain pre-determined criteria. The fixation of criteria and the choice of sampling may bring in personal element and introduce basis.

This method is usually applied in small enquiries and researchers by individuals when they are familiar with all the items of the population. It is difficult to estimate the sampling error and the reliability of the result depends on the investigator and the impartiality in the choice of the item.

TOOLS USED FOR ANALYSIS

SIMPLE MOVING AVERAGE

In technical analysis the moving average is one of key trend lines that are plot on a chart reflecting the closing prices over weeks. They smooth a data series and make it easier to spot trends, something that is especially helpful in volatile markets. They also form the building blocks for many other technical indicators and overlays. When the moving average moves above or below the daily chart, it may generate a buy or sell signal.

A moving average is an indicator that shows the average value a security's price over a period of time. When calculating a moving average, a mathematical analysis of the security's average value over a pre-determined time period is made. As the security's price changes, its average price moves up or down. We can interpret a moving average by comparing the relationship between the moving averages of the security's price with the security's price itself.

Buy signal: When the security's price rises above its moving average
Sell Signal: When the security's price falls below its moving average.

MONEY FLOW INDEX

MFI is a more rigid indicator in its volume – weighted, and is therefore a good measure of the strength of money flowing in and out of a security. It compares "Positive money flow" to create an indicator that can be compared to price in order to identify the strength or weakness of a trend. The MFI is measured on a 0 – 100 scale and is often calculated using a 14 day period.The MFI compares the ratio of "positive" money flow and "negative" money flow, if typical price today is greater than yesterday, then it is considered positive money. For a 14 – day average. The sum of all positive money from those 14 days is the positive money – flow. The MFI is based on the ratio of positive/negative money flow (money ratio)

Typical Price = ((Day High +Day Low + Day close)/3)
Money Flow = (Typical price) x (volume)
Money Ratio = (Positive Money Flow/Negative Money Flow)
Money Flow Index = 100 – (100) – (100/ 1+Money Ratio)

RELATIVE STRENGTH INDEX

The Relative strength Index (RSI) is and extremely useful and popular momentum oscillator. The RSI compares the magnitude of a stock's recent gains to the magnitude of its recent losses and returns that information into a number that ranges from 0 to 100. It takes a single parameter, the number of time periods to use in the calculation.

Average gain = Total of gains during the past 14 periods/114
Average Loss = Total of Losses during the past 14 periods /114
RS = Average Gain/Average Loss
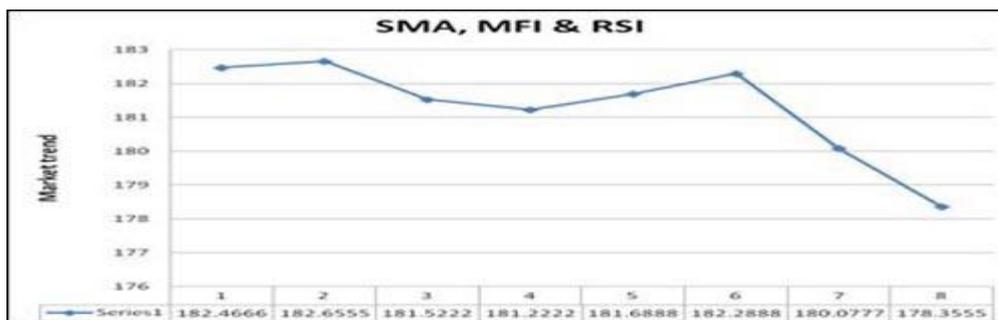RSI = 100- (100/(1 + RS))

FINDINGS AND INFERENCES

Price fluctuation is a statistical measure of the tendency of market or security to rise or fall sharply within a short period of time. Generally higher the fluctuation of a security greater is it price swings larger fluctuations means returns fluctuate in a wide range. Also all securities does not behave in the same manner. It is the expertise of the researcher and investor as of to identify which indicator proves the best.

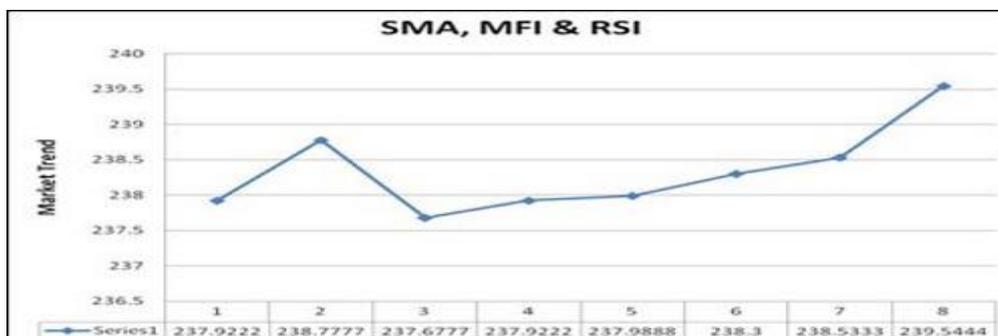### AUTOMOBILE SECTOR

* **TATA MOTORS LTD.**

The daily closing price of TATA motors ltd. is found to be lesser than the moving average which indicates the stock is proceeding in a down trend and the bearish trend would continue until there is a buy or sell signal. The MFI value lies below the centre line which confirms the trend but index is moving upwards against the trend which indicates a certain market change in the trend in the near future. The RSI indicator lies well below the 30 marks which shows the stock is obviously oversold and there would a definite bullish trend.

SMA, MFI & RSI

Series1	1	2	3	4	5	6	7	8
	182.4666	182.6555	181.5222	181.2222	181.6888	182.2888	180.0777	178.3555

To conclude this is a better time for the stock to be bought as soon as the indicator shows a buy signal.

- **MARUTI UDYOG LTD.**

The daily closing price of maruti udyog ltd. is found to be lesser than that of the moving average which indicates that the stock is in a down trend and bearish signal would continue until there is a definite buy signal. The MFI value lies below the centre line which confirms the trend but index is moving upwards against the trend which indicates a certain change in the trend in the near future the RSI indicator has started to slow the over sold condition and this confirms there would be a trend reversal.
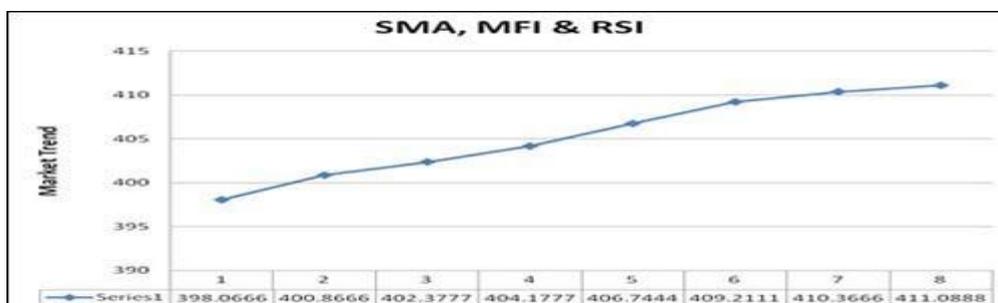

SMA, MFI & RSI

Series1	1	2	3	4	5	6	7	8
	237.9222	238.7777	237.6777	237.9222	237.9888	238.3	238.5333	239.5444

To conclude it is better to wait for the indicators to show some definite signal before making any buying decisions with the stock.

BANKING SECTOR:

- **STATE BANK OF INDIA**

The daily closing price of state bank of India is found to be lesser than that of the moving average which indicates that the stock is in a downtrend and bearish signal would continue The MFI indicates a opposite signal as it trends in a direction opposite to that of the stocks direction and thus there would definitely be a trend reversal. The RSI indicates the security is in oversold condition and would not take much longer to reverse its trend.

SMA, MFI & RSI

| Series1	1	2	3	4	5	6	7	8
	398.0666	400.8666	402.3777	404.1777	406.7444	409.2111	410.3666	411.0888

To conclude the indicators show that there would be a definite buy signal in the immediate future and hence investing in this stock would be a better option.

- **ICICI BANK LTD.**

The daily closing pirce of ICICI bank ltd. is found to lie below the moving average which indicates that the stock is in a down trend and bearish signal would continue. The MFI indicator shows the money the money

flows is creeping very low and bearish trend is confirmed since it is well below the centre line. The RSI has just started to pleenge in to the over sold region and it is seen that the trend would continue.
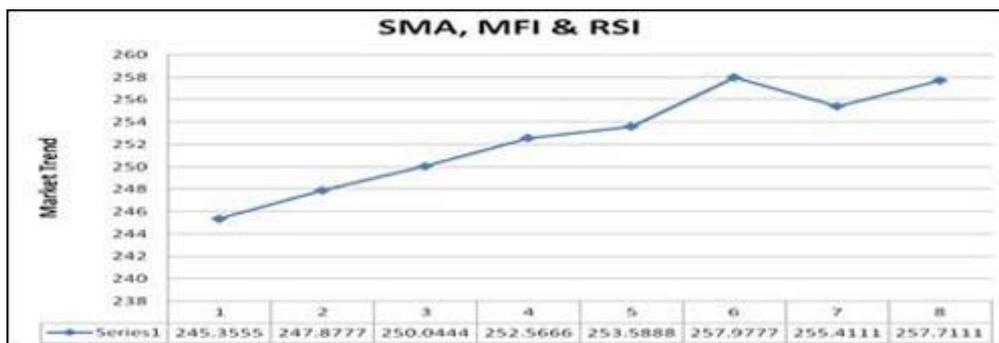

To conclude with the stock has not shown any definite signal hence it is advisable to hold the stock and not make any further buy decisions unless the trend reversal signal appears.

## INFORMATION TECHNOLOGY SECTOR

- **INFOSYS TECHNOLOGIES LTD**

The daily closing price of infosys technologies lit is found to lie below the moving average which indicates that the stock is in a downtrend and bearish signal would continue. The stock has shown a sell signal in the recent past and has continued to trend down from then on the MFI is below the 50 mark but then the direction of the indicator is in positive direction and thus continues there would be a trend reversal since the indicator has signaled to be in a positive direction. The RSI is well below the centre line and thus the stock is confirmed to be in the downtrend.
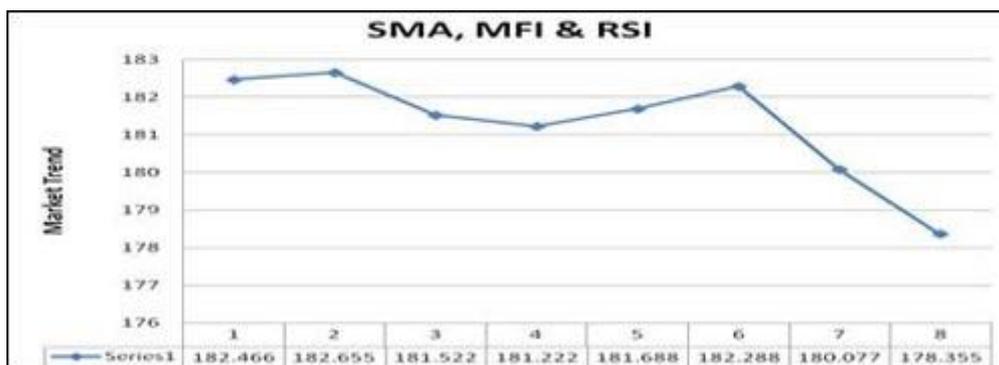
To conclude that the stock has shown a sell signal at recent time and will certainly take time to show another signal.

- **TATA CONSULTANCY SERVICES LTD**

The daily closing price of TATA consultancy services ltd is found to lie below the moving average which indicates that the stock is in a down trend and bearish signal would continue. The MFI indicates well below the 50 marks confirming the trend. The RSI indicates a down trend as the gain is lesser than loss thus strengthening the bearish trend.
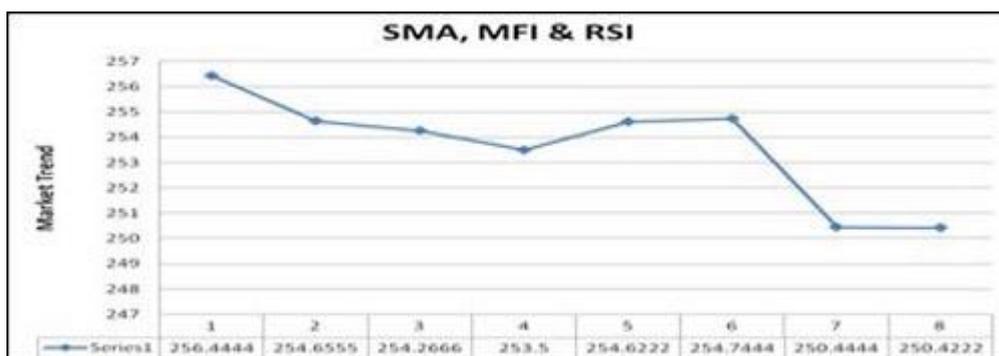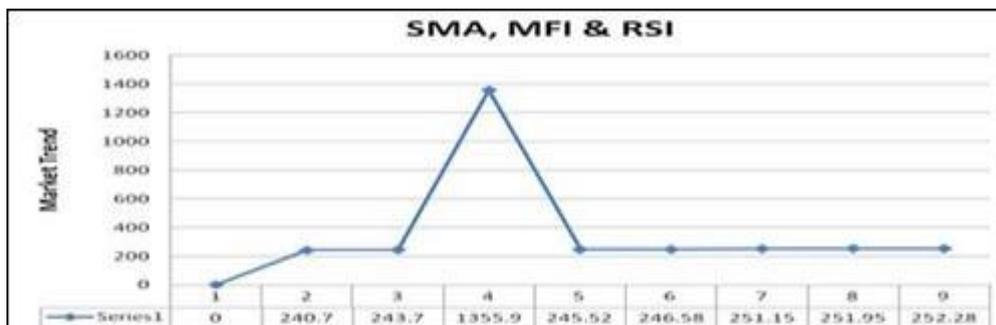
To conclude the stock is in its downtrend but the trend might reverse as the money flows is been measured positive so it is better to hold the stock and not make any further buy decision.
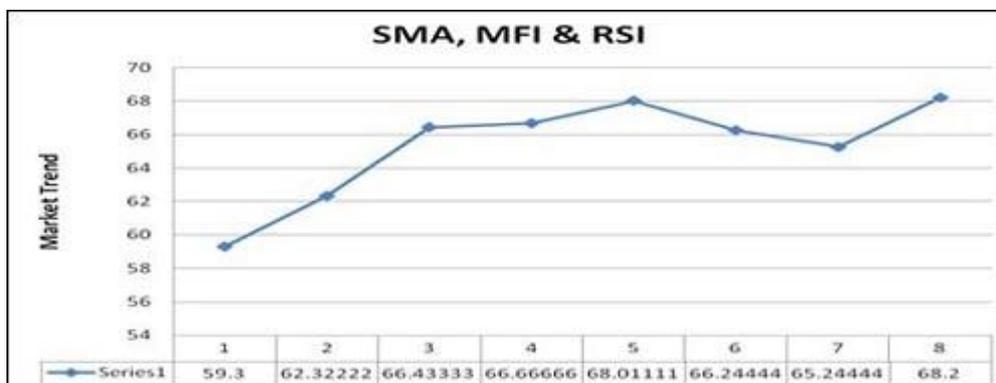
OIL SECTOR:

- **ONGC LTD.**

The daily closing price of ONGC Ltd. is found to lie below the moving average after showing a recent sell signal which indicates that the stock is in a down trend. The MFI indicates the reading above the centre line and it is moving in a positive direction which shows that money flowing into the stock is increasing which indicates there would be a certain trend reversal. The RSI indicator creeps well near the 30 mark and hence the strength of the trend is very weak.

To conclude the stock is having a weak downtrend which would reverse after showing a signal confirmation. Hence it a good time to make an investment decisions in this stock.

- **RELIANCE PETROLEUM LTD.**

The daily closing price of Reliance petroleum ltd. is found to lie below the moving average after showing a recent sell signal which indicates that the stock is in a downtrend The MFI indicates the reading above the centre line and it is moving in the same direction as that of the stock is increasing which indicates there would be a certain trend reversal, The RSI indicator creeps well near the 30 mark and hence the strength of the herd is very weak
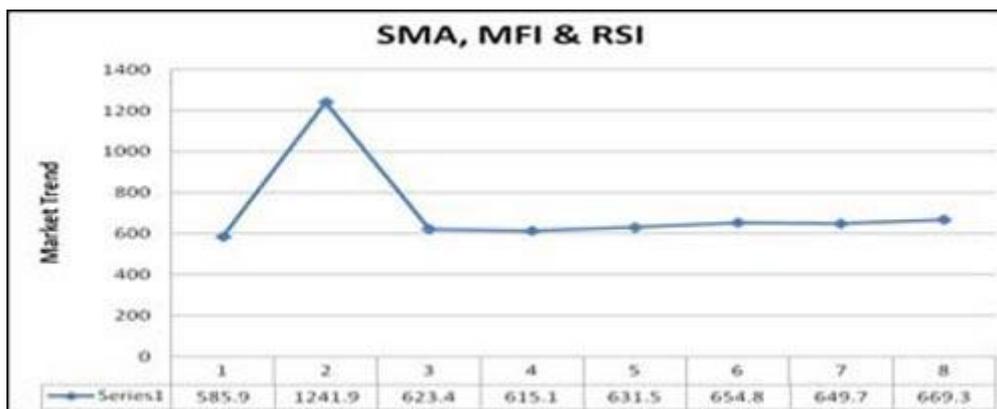

To conclude the stock is having a weak downtrend which would reverse after showing a signal the stock is having a weak down trend which would reverse after showing a signal confirmation. Hence it a good time to make a investment decisions in this stock.

TELECOMMUNICATION SECTOR:

- **BHARTI AIRTEL LTD**

The daily closing price of Bharti Airtel is found to lie below the moving average after showing a recent sell signal which indicates that the stock is in a downtrend. The MFI indicates the reading on the centre line and it is moving in the direction opposite to that of the stock and hence there would be a trend reversal because of heavy inflows. The RSI indicator is just near the 30 mark and hence the strength is the downtrend is so weak and would reverse.

To conclude the stock is having a trend which is very weak and a trend reversal is confirmed by the indicators. Hence the stock investment would be better choice as soon as the trend reverses.

- **RELIANCE COMMUNICATIONS LTD**.

The daily closing price of Reliance communications Ltd. is found to lie below the moving average after showing a recent sell signal which indicates that the stock is in a down trend. The MFI indicates the reading below the centre line it is moving in the same direction as that of the stock and hence trend is confirmed. The RSI indicator is just pluging into the 30 mark and hence the strength of the trend is so weak and there would be a trend reversal from the oversold condition.
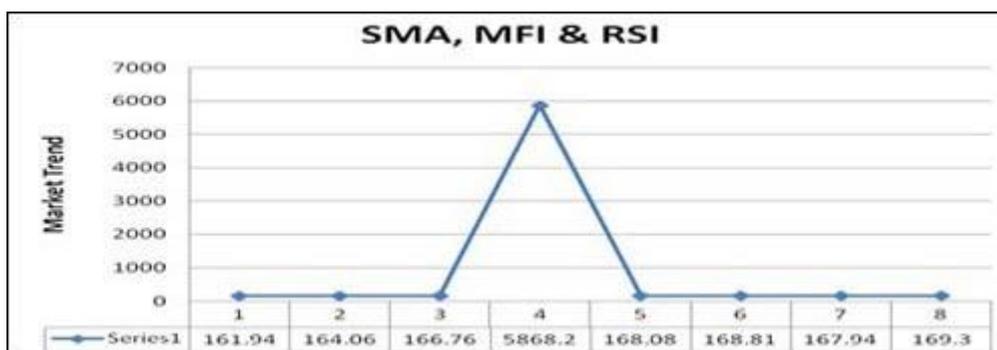
To conclude the stock is having a trend which is in a downtrend and the stock is in a oversold condition and hence it is advised to make buy decisions once after the trend reverses.

SUGGESTIONS

Volatile markets are characterized by wide price fluctuations and heavy trading. They often result from an imbalance of trade orders is one direction, wide price fluctuations are a daily occurrence on the world's stock markets as investors react to economic business and political events. Market watchers see high volatility as a sign of investor nervousness which, in the counter-intiative world of market, is of course bullish

The present study on the simple moving average model applied on selected company's scripts would help the investors to take investment decision. It is suggested that the investors can invest in the shares that shows a definitive signal of buy or sell decisions. The investors can invest in the companies which are recovering out of either over brought or oversold condition since there might be a definite trend reversal in those stocks. It is also advised for the investors to hold the stock which keep fluctuating unless until the stock follows definite bearish or bullish trend. And also the investor can make investment not only following a particular indicator but by confirming the signal with several indicators for better returns.

CONCLUSION

In India most of the industries require huge amount of investments. Funds are raised mostly through the issue of share. An investor is satisfied from the reasonable return from investment in shares. Speculation involves higher risks to get return on the other hand investment involves no such risks and returns will be fair. An investor can succeed in his investment only when he is able to select the right shares. The investors should keenly watch the situations like market price, economy, company progress, returns, and the risk involved in a share before taking decision on a particular share. This study made will help the investors know the behaviour of share prices and thus can succeed.

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