

A Study on Technical Analysis of Select Banking Stock

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ABSTRACT

Investment is the present sacrifice for the future return. It is the money commitment to earn a desired return. There are various avenues of investment is available to investors. The choice of investment types depends upon personal risk bearing capacities or otherwise the investment strategy one adopts. Of all investing in shares are considered aggressive strategy as it is more risky with more return. This paper makes an attempt to use technical analysis on some select banking sector stocks.

Keywords

Technical analysis, Volatility, Deviation, Expected return

INTRODUCTION

Investing in share yield more return and undergo more risk also. Investment program needs to start with clear objectives. Based on the objectives, investment alternative can be chosen. Choosing investment needs a careful analysis. There are two approaches followed in investment analysis, the fundamental and technical analysis. The former analyses the fundamental factors such as economic, industry and company analysis, whereas later uses some technical tools to analyse the trend and timing, buy signal and sell signal. Technical analysis is superior over the fundamental as it can pitch the exact picture on the trend, support level or resistance level.

STATEMENT OF THE PROBLEM

Investment is a common term which means money commitment or present sacrifice to get a future return. The return on investment largely depends on investment strategy. Conservative strategy takes a cautious step with minimum return and minimum risk. Risk is one the attributes of investment decision. Aggressive strategy includes money commitment towards risky securities. This includes shares and debentures. The success of investment largely depends on timing of investment. Timing here means “When to enter?” and “when to Exit?” For this, technical analysis will help the investor to make buy signal

or sell signal. Both fundamental and technical analysis will lead Wise investment decision. When fundamental analysis will help calculate intrinsic value of the securities, technical analysis will help to know the price trend, support, and resistance level of share prices. Therefore, this study is to apply technical tools such as chart, moving average, Relative Strength Index etc.

REVIEW OF LITERATURE

Revathi Pandian (2013) had done a research on Determinants of Risk and Return of Security analysis and Portfolio Management. This study made an attempt to measure the risk and return of portfolio theories. It is argued that as per Markowitz and efficient portfolio is one with minimum risk, maximum profit. It is advisable for an investor to work out his portfolio in such a way where he can optimise his returns by evaluating and revising his portfolio on a continuous basis.

Chitra (2011) analysed the price movements of selected company scrips. The researchers used Beta, Relative Strength Index (RSI) and moving average Techniques. Ten companies actively traded in National Stock Exchanges were selected on stratified sampling basis. It gave suggestion for buying shares.

Uma Devi (2011) has used data mining technique to give guidance to the naïve investors. It has used Time series Analysis. The use of time series analysis helps to investigate and foresee the proceedings. It concluded that investing in banking index in stock market will always give profitable solutions to naïve investors.

Vassiliy Chsherbakov (2010) made an attempt to study the efficacy of use of Technical Analysis from Russian Stock Market. It analysed the securities of the Russian stock exchange with help of one of the most popular technical instrument –moving average to make buy or hold strategy. In this paper the author has used Net profit, Percentage gain or loss Buy&Hold Index, Total trades, winning Trades, losing trades and Average Win/Loss indices were used. Buy&Hold Index is used in this study. Buy&Hold

Index shows the percentage of the system's profits as compared to a buy and hold strategy profits.

OBJECTIVES OF THE STUDY

1. To ascertain the level of risk involved in investing in any of the banks taken in the study
2. To ascertain the volatility of prices of the banks

RESEARCH METHODOLOGY

Since, this study is based on the behavior of the market trends of the banks taken into study this requires an in-depth study of the historical data. And hence, secondary data is been used for this research project.

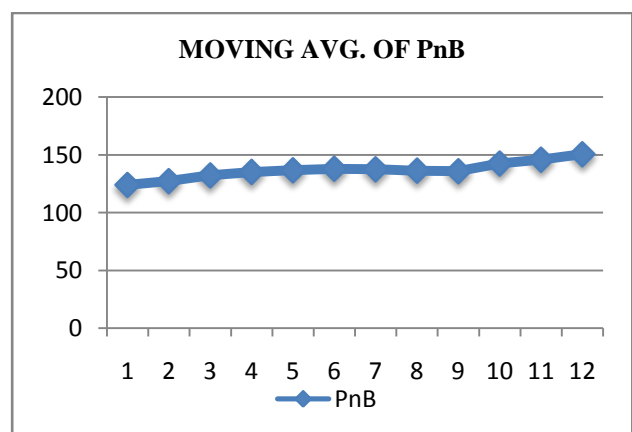
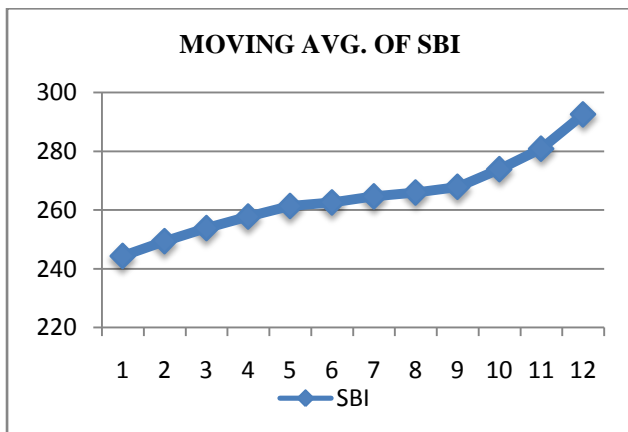
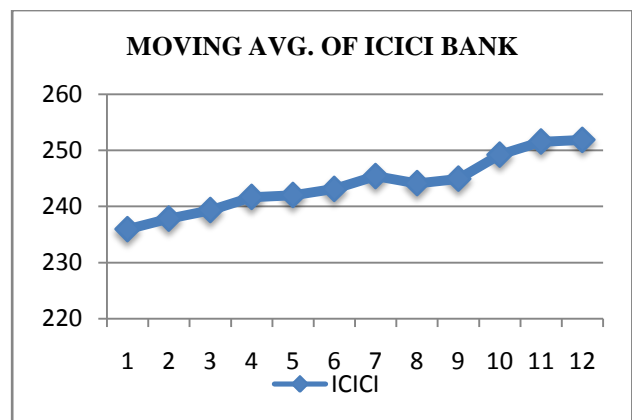
This is the list of closing prices of all 5 banks for one financial year ended that is 1st April, 2016 to 31st March, 2017.

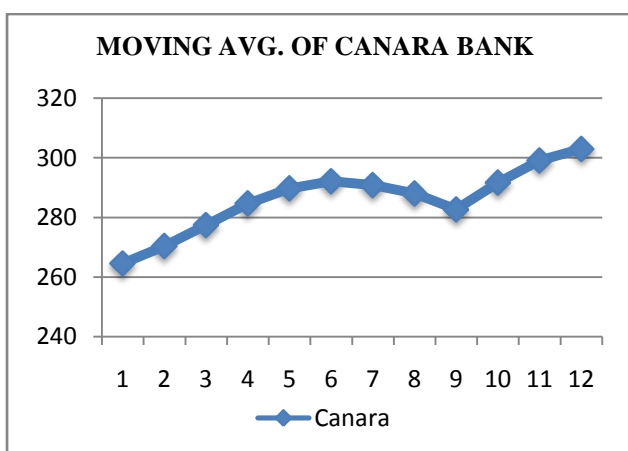
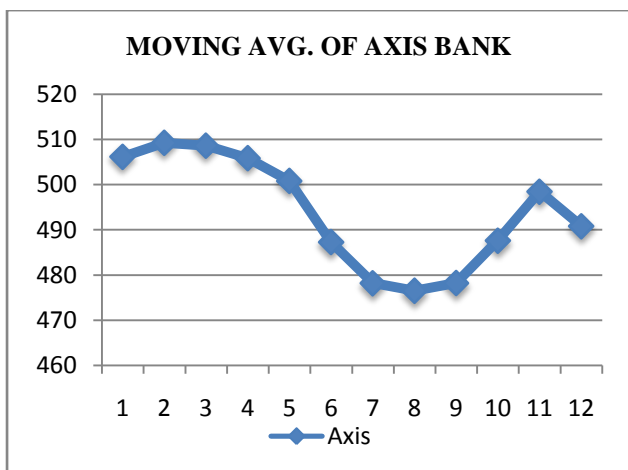
MONTH	STATE BANK OF INDIA	ICICI	PUNJAB NATIONAL BANK	AXIS BANK	CANARA BANK
1/4/2016	188.949997	215.091003	87.099998	472.25	200.371002
1/5/2016	204.850006	222.908997	79.099998	515.599976	199.934006
1/6/2016	218.649994	218.363998	105.800003	533.450012	212.481003
1/7/2016	229.050003	238.955002	123.449997	546.049988	244.335999
1/8/2016	252.550003	234.272995	127.400002	595.650024	272.640991
1/9/2016	250.699997	229.363998	140.649994	541.849976	299.924988
1/10/2016	257.850006	251.908997	143.899994	486.600006	305.128998
1/11/2016	258.399994	240.908997	138.199997	469.75	309.506012
1/12/2016	249.75	232.091003	115.599998	450	255.667999
1/1/2017	260	244.591003	135.949997	465.899994	276.774994
1/2/2017	269.200012	251.272995	141.350006	506.149994	295.25
1/3/2017	292.600006	251.908997	150.699997	490.799988	303

RESULTS AND DISCUSSION

1. Moving Averages

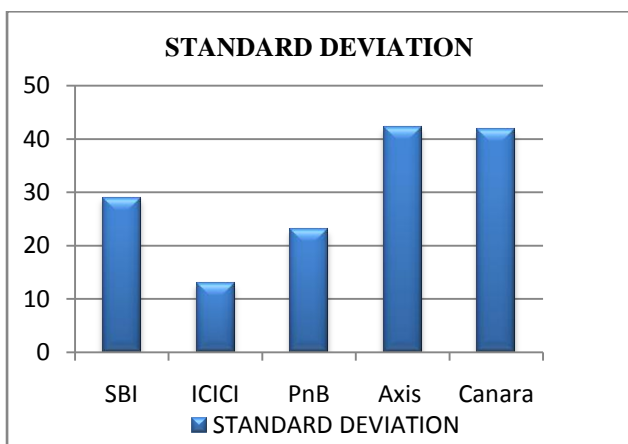
Moving average is one of the reliable technical tools used technicians for fixing the trend of scrip. It is used to identify the trend direction. Moving average is just an average of the price. Moving average is calculated by dividing the total share prices by the number, then total is calculated by dropping the earlier and adding the price and its average. This will help to fix the buy signal or sell signal.





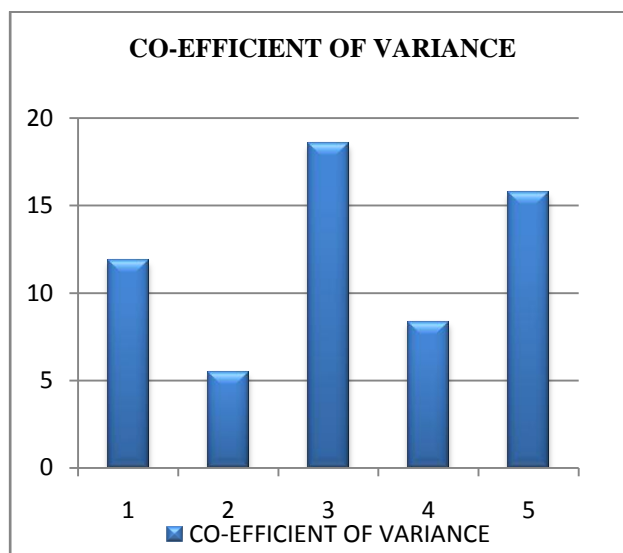
2. Standard Deviation

Standard deviation is used to find out the deviation in getting the return. Large deviation tells the investor that its risk is high. When two securities are given for selection, the one will choose the security that gives less deviation. Less standard deviation tells that the probability of getting expected return almost certain. Following charts gives the standard deviation of given banking stock.



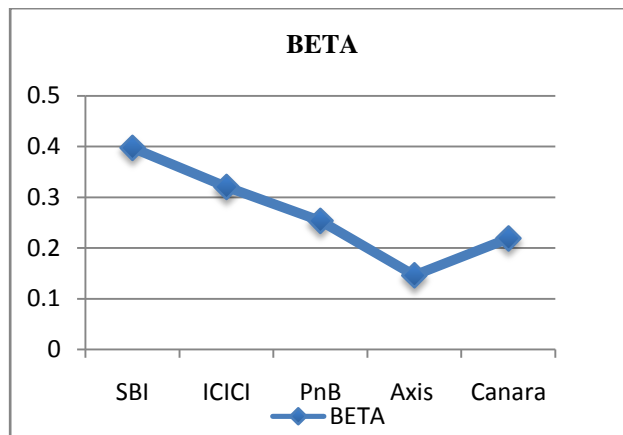
3. Co-Efficient Of Variance

Co-efficient of variation is a tool which is used to measure the dispersion of data points in a data series around the mean point. When compared to mean and standard deviation, Co-efficient of correlation makes every dispersion relative and yet independent of the underlying unit. It is used to measure volatility in the prices.



4. Beta

Beta is another tool which measures the volatility of a share. The changes in security prices are largely influenced by changes in important bench mark. And the Beta establishes the relationship between the share price and the overall market. If Beta of given scrip is more than 1, then the share is more volatile. If beta is equal to one, share price move with the bench mark index. If Beta is less than 1, the share is less volatile in nature and indicates that the changes in important bench mark indices will not affect the share prices.



FINDINGS, SUGGESTIONS AND CONCLUSION

1. After the made observations above with the use of some of the technical tools, especially, standard deviation because that gives us the level of risk involved in the market, I can say that investing in the shares of Axis bank and Canara Bank are more risky than investing in any other bank taken in the study.
2. Beta values will help us to understand the volatility of share prices in the market. When we look at the beta values, the beta values for all the banks taken into study has the value less than 1 which means all the banks are less volatile. But comparing the beta values of all 5 banks, Axis bank's Beta value is lesser than any other bank. So that we can say Axis bank is less volatile than any other.
3. When it comes to investment decision, things to be considered are the moving average of process, risk level and also the volatility. Considering all these factors, I would like to suggest the investors to invest on the shares of either State Bank of India or ICICI Bank. Because if you look at the moving average of prices it kept on increasing for both the banks with a lesser level of risk. When comparing the risk factor, ICICI Bank has a lower level of risk even with regards to State Bank of India.
4. Which is not advisable to invest? For this, the answer can be made of easily that investing on Axis or Canara Bank would be a worst decision. If we compare the technical tools undertaken in the study it clearly states that the prices are fluctuating heavily along with a higher amount of risk involved in investing on it.

Needless to say that, the technical analysis is more reliable to fix the trend and buy signal or sell signal. The chart, moving average, chart pattern will help the investors to study the trend and trend reversal. From the above study it is clear the use of various tools helps the investors in choosing the particular share. The beta for example has given a clue as to which stock is more or less volatile. To conclude, if fundamental analysis helps to find out the intrinsic value of a given shares, the tools such as Beta, Moving average will confirm the price trend and help the investor in their investment decision.

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