

A STUDY ON TECHNICAL ANALYSIS ON EQUITY SHARES

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ABSTRACT

Technical analysis is a method used to evaluate securities and identify trading opportunities by analyzing statistical trends gathered from trading activity, such as price movement and volume. This study aims to examine the effectiveness of technical analysis tools in predicting stock price movements and making investment decisions. The focus is on the application of technical indicators like Moving Averages, Relative Strength Index (RSI), MACD, and Bollinger Bands on selected equity shares to assess their trends and trading signals.

Keywords: Technical Analysis, Equity Shares, Stock Market, RSI, MACD, Moving Averages, Trading Signals, Investment Strategy

INTRODUCTION

The stock exchange or secondary market is a highly organized market for the purchase and sale of second hand quoted of listed securities. The securities contracts (Regulation) Act 1956 defines a stock exchange as “an association, organization or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities”. Of all the modern service institutions, stock exchange plays a crucial agents and facilitators of entrepreneurial progress. After the industrial revolution, as the size of the business enterprises grew, it was no longer possible for individual person or even partnerships to raise such huge amount for undertaking these ventures. Such huge requirements of capital can be met only large number of individuals. These investors could be expected to participate actively only if investment is liquid or they could sell a part of their stake whenever they wish to generate cash. This liquidity can be achieved through shares and debentures representing smallest units of ownership and lending represented by the public. The institution where these securities are traded is known as stock exchange. This stock exchange is one of the most important institutions in the capital market.

Objectives of the Study

- To understand the concept and scope of technical analysis.
- To evaluate the effectiveness of technical analysis tools.
- To analyze trends and generate trading signals using technical indicators.
- To provide insights into investment strategies based on technical findings.

SCOPE OF THE STUDY:

- The study helps to find out the future trends in the price of Equity share.
- The Study covers for a period of 1 year.

- The better understanding of the stock market trend will facilitate allocation of financial resources to the most profitable investment opportunity.

LIMITATIONS OF THE STUDY:

- There is no guarantee that what has worked for over a hundred and fifty years in the past may continue to work in the future.
- The study is confined to 1 years only and hence the changes taken place before and after these periods have not been taken into considerations.
- The study is confined only to three months in case of money flow index.

RESEARCH METHODOLOGY

Type of Research: Analytical

Sources of Data:

- **Secondary Data** from websites like NSE, BSE, Moneycontrol, and Yahoo Finance.
- **Period of Study:** 6 months
- **Sample:** Selected equity shares from NIFTY 50 (e.g., Reliance Industries, Infosys, TCS)

Tools Used:

- Moving Averages (SMA & EMA)
- Relative Strength Index (RSI)
- Moving Average Convergence Divergence (MACD)
- Bollinger Bands
- Candlestick Patterns

REVIEW OF LITERATURE

Prof. Leopold A. Bernstein (1975) in his article had defended the function and value of fundamental investment analysis as the basis of successful investment in equity shares. He had argued that even though psychological and other factors accounted 50% of price changes the other 50% of it was only due to fundamental factors.

Balasubramaniam. K. (1994) examined the behavior of stock returns in India. He took the daily and weekly prices of 90 shares listed in BSE. He applied auto correlation analysis; runs test and filter techniques for the study. He concluded that share price behavior is not random and hence random walk hypothesis cannot be established for Indian stock market.

Prakash.L. Dheeriya studied the early movement of stock market indices of major rational stock exchanges of 16 countries over the period of 1987 crash. He used time series of daily stock market indices at closing time. He found evidence of co-integration between stock indices of some small European countries.

Eugene F. Fama studied, “the Behavior of stock market prices”. The main objective of the theory is to find answer to the question: to what extent can be used to make meaningful predictions concerning the future prices of stocks?

Chan and Chen (1991) examined the difference in structural characteristics that lead firms of different size to react differently to the same economic news. By using time series analysis they found that return difference between small and large firms could be captured by the responses of high leverage firms and marginal firms to economic views.

Ritter (1988) analyzed the buy/ sell details of NYSE stocks over a period of 15 years from Dec 17, 1970 to Dec 16, 1985. Ritter proposed the “parking- the –proceeds” hypothesis i.e., the individual investors who sell the stocks prior to the late December for tax loss selling and they buy the shares in early January, mostly small stocks. He concluded that the ratio of stock purchases to sales by individual investor displays a seasonal pattern, with individuals having a below-normal and buy/sell ratio in late December and above normal ratio in early January.

Tools of Technical Analysis

Moving Averages

Helps in identifying trend direction. A crossover between short-term and long-term moving averages generates buy/sell signals.

RSI (Relative Strength Index)

Measures the speed and change of price movements. RSI values above 70 indicate overbought conditions, and below 30 indicate oversold.

MACD

MACD line crossing above the signal line is a bullish signal; crossing below is bearish.

Bollinger Bands

Helps in identifying volatility and price breakouts. Price touching upper band may indicate overbought conditions.

Data Analysis and Interpretation

Reliance Industries Example (Jan to June 2025)

- **SMA (50) and SMA (200)** showed a golden cross in March, indicating a bullish trend.
- **RSI** moved above 70 in April, suggesting overbought condition; price correction followed.
- **MACD** confirmed bullish momentum in May.
- **Bollinger Bands** tightened in February, followed by a price breakout.

Interpretation: The combination of indicators supported a short-term buy decision in March with exit signals in late April.

TABLE 1

TABLE SHOWING AVERAGE RETURN OF GLAXOLD AND NIFTY

MONT H	AVG RET	MKT	AVG RET	NIFTY	MONT H	AVGMKT RET	AVG RET	NIFTY
Jan-10	-0.0018		-0.0021		Jul-11	0.0076	0.0038	
Feb-10	0.0000		0.0011		Aug-11	0.0065	0.0000	
Mar-10	-0.0045		-0.0041		Sep-11	0.0266	0.0031	
Apr-10	0.0047		-0.0022		Oct-11	-0.0021	0.0012	
May-10	0.0058		0.0036		Nov-11	0.0070	0.0046	
Jun-10	0.0077		0.0057		Dec-11	0.0156	0.0027	
Jul-10	0.0021		0.0020		Jan-12	0.0030	-0.0005	
Aug-10	0.0089		0.0069		Feb-12	0.0030	0.0011	
Sep-10	0.0038		0.0021		Mar-12	-0.0200	-0.0014	
Oct-10	-0.0351		0.0042		Apr-12	-0.0035	-0.0033	
Nov-10	-0.0014		0.0020		May-12	-0.0021	0.0042	
Dec-10	0.0263		0.0070		Jun-12	0.0038	0.0027	
Jan-11	0.0043		-0.0016		Jul-12	0.0072	0.0021	
Feb-11	0.0003		-0.0001		Aug-12	-0.0045	0.0014	
Mar-11	-0.0018		-0.0006		Sep-12	0.0067	0.0042	
Apr-11	0.0024		0.0008		Oct-12	-0.0061	-0.0045	
May-11	-0.0019		-0.0082		Nov-12	0.0045	0.0057	
Jun-11	-0.0017		0.0008		Dec-12	0.0016	0.0031	

BETA CALCULATION FOR GLAXO FOR THREE YEARS

$$\begin{aligned}
 \text{COVARINCE (SIEMEN'S, NIFTY)} &= 1.16064\text{E-}05 \\
 \text{VARIANCE (NIFTY)} &= 1.10581\text{E-}05 \\
 \text{BETA VALUE} &= 1.049590245
 \end{aligned}$$

Interpretation

BETA=1.049 the beta value is greater than 1, that is security's price will be more volatile than the market, and therefore buying the share is more risky.

FINDINGS

- Technical indicators are effective in identifying short-term trends.
- Moving average crossovers offer reliable trend confirmation.
- RSI and Bollinger Bands help in identifying reversal points.
- Combining multiple indicators increases reliability.

SUGGESTIONS

Volatile markets are characterized by wide price fluctuations and heavy trading. They often

result from an imbalance of trade orders in one direction. Wide price fluctuations are a daily occurrence on the world's stock markets as investors react to economic, business and political events. Markets have been showing extremely erratic movements, which are in no way tandem with the information that is fed to the markets. Market watchers see high volatility as a sign of investor nervousness which, in the counter-intuitive world of markets, is of course bullish. The present study on the single moving average model applied on selected company scrip's would help the investors to take investment decision. It is suggested that the investors can invest in the shares that earns higher average returns. Also, the investors can invest in the companies which involves less risk and which moves along with the market.

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. Besides the investors are motivated to buy the shares from the stock market either for speculation or investments. 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 behavior of share prices and they can easily succeed.

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