TECHNICAL ANALYSIS OF SELECTED INDIAN BANKS

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Abstract

This paper describes about the use of Technical Analysis for traders while taking buying and selling decisions with the technical analysis done for the stocks of few selected Indian Banks. Technical analysis is the most useful and consistent approach to trading in the markets. Simply put, Technical analysis is the art and science of putting stock information on a chart in the form of various kinds of bars and detecting different patterns indicators tosses the market direction. While a lot of people know a least a little about technical analysis, very few really know how to use it. Technical analysis is not an astrological science for predicting prices and market direction. The main function of technical analysis is to show the current demand-supply position of the market, or the particular stock, define risk and reward of each particular trade. Technical analysis is not an end in itself; the end is its effective use for profitable trading.
TECHNICAL ANALYSIS

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CHARTS

Charts are the working tools of the analyst. They have been developed in a multitude of forms and style to represent graphically almost anything and everything that takes places in the market, or to plot an “index” derived there form. They may be monthly charts on which an entire month’s trading record is condensed into a singles entry, or weekly, daily, hourly, transaction,” point and figure” candlestick etc.

They may be constructed an arithmetic, logarithmic, or square-root scale, or projected as “oscillators” they may delineate moving averages, proportion of trading volume to prices movement, averages price of “most active” issues odd-lot transactions the short interest and an infinitude of others relations, ratios, and indexes-all technically in the sense that they are derived, directly or indirectly, forms what has actually been transacted on the exchange.

SPECULATION

Contrary to what many people believe, speculation is not gambling. Speculation is the skill of analyzing data and taking positions on the various market situations to profits from favorable price movements. In the stock market arena, this activity is also called trading.

OBJECTIVES OF THE STUDY

- To study the suitable method of predicting price movement through technical analysis.
- To evaluate previous frame to know entry and exit level of trading
- To identify the buy signal and sell signal through chart movements with help of indicator

RESEARCH DESIGN

Analytical research design is adopted in this project. The main characteristic of this method is that the researcher has no control over the variable. In this method the facts or information are used which are already available, and analyze these to make a critical evolution of the material.
The shares are chosen from the NSE India site, which are actively and highly traded industries in the past one year.

- No. Of Years : 1 year
- No. Of Sectors : Bank
- No. Of Companies : 5 companies
- One year financial data collected from the bank sectors.
- Year taken for study : 2010

**SOURCES OF DATA:**

The study is based on secondary data. The main sources of data are collected through websites such as nseindia.com, bseindia.com, money control.com, Indiabulls.com and Charting Software’s.

**TOOLS USED FOR ANALYSIS**

Moving average, Support and Resistance level

**INTERPRETATION OF MARKET MOMENTUM**

The following steps need before making any analyses of stocks. Because in technical analysis we are concerned with identifying trend reversal at a relatively early stage and assume that the new trend will continue riding that the new trend will continue riding that trend until it reversal.

**RESISTANCE AND SUPPORT LEVEL**

**Resistance**

In simple words the meaning of resistance is opposition. As the name indicates, it opposes the share price going in upper direction. It is the level where share price may stop before continuing its upper journey.

But if the buying starts from all sides then no resistance come into picture the resistance level is just broken and share price will continue its upward journey. To break the resistance level volumes also play the major role.

If the share price moves above the resistance level with huge support of volumes then it is considered as confirm up trend.

Once the resistance is broken then the share moves till its next resistance level or go in consolidation (share movement with very less price variation) phase and then after getting appropriate buying with good support of volumes then it tries to break its next resistance level and will proceed and this continues.

The major bullish resistance is considered as 200 DMA (daily moving average) As long as the share or index is trading above this level then it is considered as bullish or if share or index moves from bottom and breaks this level then further upside is confirmed and on the opposite side if the 200 DMA is broken from above then the down trend will continue and
this is what happened with Nifty and Sensex when they broke their 200 DMA in January 2008. Market has seen more than 60% fall after the broke of 200 DMA support level.

Resistance broken will act as support level (in case of moving average method)

**SUPPORT LEVEL**

As the name indicates it provides support for to share price to prevent it from falling further. If the share price starts falling then it is expected that it may take halt at its support level but if the selling and especially short selling is taking place then no support will comes into pictures. If the selling pressure is from all sides then it may or may not take halt or wait near its support level and will continue its downward journey till it finds next support levels.

**MOVING AVERAGE**

The market indices do not rise or fall in straight line. The upward and downward movements are interrupted by counter moves. The underlying trend is studied by smoothing of the data. To smooth the data moving average technique is used. The word moving means that the body of the data moves ahead to include the recent observation. If it is six months moving averages.

**STOCK PRICES AND STOCK PRICES MOVING AVERAGE**

Stock prices and stock prices moving average buy and sell signals are provided by the moving averages. Moving averages are used along with the price of the scrip. The stock price may intersect the moving average at a particular point. Downward penetration of the rising average indices the possibility of a further falls. Upward penetration of a falling average would indicate the possibility of the further rise and gives the buy signal
DATA ANALYSIS

6 MONTHS MOVING AVERAGE, JULY TO DECEMBER 2011
AXISBANK, ISIN: INE238A01026, Industry: Banks

CHART 1
STATE BANK OF INDIA
ISIN: INE062A08017, Industry: Banks

CHART 2

Rising Trend

Buying Signal

Selling Signal

closing price
avarage
FINDINGS

STOCK PRICE AND STOCK PRICES AVERAGE

The technical analysis studies the behavior of the price of the stock to determine the future price of the stock. Stock price and stock price average is a tool for investors.

The moving average of the stock penetrates the stock market index from above; it generates sell signals, and unfavorable market conditions that prevail for the particular scrip. Investors have to concentrate on all information of shares. Not in moving average alone.
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