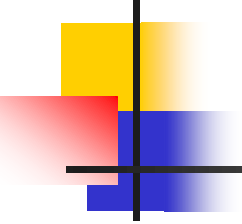
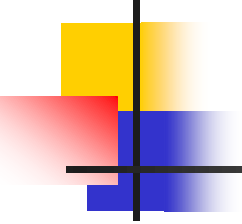




FUNDAMENTAL ANALYSIS

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- According to the fundamental analysts, every security has an intrinsic value which is taken as sum of present value of further dividends discounted on the basis of its perceived safety and risk.

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- Fundamental analysis is divided into three parts
 - Economic analysis
 - Industry analysis
 - Company analysis



Economic analysis

- Economic factors are very important to form a strategy for making investment. In the first place, the performance of a company depends on the performance of macro economic conditions of a country as well as of the world.
- If the economy of a Country is going through recession; the performance of a company will be bad in general. On the other hand, a booming economy leads to a rise in income and demand for goods and thereby flourishing of industrial sector .

key macro economic factors

are:

- Gross domestic Product (GDP)
- Savings and investment
- Inflation
- Interest rates
- Budget
- Tax structure
- Monsoon and agriculture
- Infrastructure facilities

Gross domestic Product (GDP)



- **Gross domestic Product (GDP)** – GDP indicates the rate of growth of the economy . It represents the aggregate value of the goods and services produced in the economy .
- The estimates of GDP are available on an annual basis . The growth rate of economy points out the prospects for the industrial sector and the return investors can expect from investment in shares . The higher growth rate is more favourable to the stock market .



Savings and investment

- It is obvious that growth requires investment which in turn requires substantial amount of domestic savings . Stock market is a channel through which the saving of the investors are made available to the corporate bodies .
- Savings are distributed over various assets like equity shares, deposits, mutual fund units, real estate etc. . The saving and investment patterns of the public affect the stock market to a great extent .



Inflation

- Along with the growth of GDP, if the inflation rate also increases, then the real rate of growth would be very little . The demand in the consumer product industry is significantly affected. The industries which come under the government price control policy may lose the market, for example Sugar .
- The government control over this industry , affects the price of the sugar and thereby the profitability of the industry itself. If there is a mild level of inflation, it is good to the stock market but high rate of inflation is harmful to the stock market.



Interest rates :

- The interest rate affects the cost of financing to the firms. A decrease in interest rate implies lower cost of finance for firms and more profitability .
- More money is available at a lower interest rate for the brokers who are doing business with borrowed money . Availability of cheap fund , encourages speculation and rise in the price of shares .

Budget



- The budget provides an elaborate account of the government revenues and expenditures. Balanced budget is highly favourable to the stock market .



The tax structure

- Every year in March, the business community eagerly awaits the Government's announcement regarding the tax policy .
- Concessions and incentives given to a certain industry encourages investment in that particular industry. Different tax exemptions has impact on the profitability of the industries .



Monsoon and agriculture

- Agriculture is directly and indirectly linked with the industries. For example, Sugar, Cotton, Textile and Food processing industries depend upon agriculture for raw-material. Fertilizer and insecticide industries are supplying inputs to the agriculture.
- A good monsoon leads to higher demand for input and results increase in crops. This would lead to increase in the stock market. When the monsoon is bad, there is a negative effect on the share market .



Infrastructure facilities

- Infrastructure facilities are essential for the growth of industrial and agricultural sector. A wide net work of communication system is a must for the growth of the economy . Regular supply of power without any power cut would boost the production.
- Good infrastructure facilities affect the stock market favourably.