

UNDERSTANDING INVESTORS AWARENESS: EXPLORING FUNDAMENTAL ANALYSIS TECHNIQUES

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ABSTRACT

This study investigates the awareness of investors towards fundamental analysis, a crucial aspect of decision-making in financial markets. Fundamental analysis involves evaluating a security's intrinsic value by analyzing related economic, financial, and qualitative factors. The research aims to assess investors' understanding, perception, and utilization of fundamental analysis techniques in their investment strategies. By employing quantitative methodologies, including surveys, the study seeks to identify the level of knowledge, the extent of application, and the perceived effectiveness of fundamental analysis among investors. The findings of this study can contribute to enhancing investor education programs, refining investment strategies, and improving market efficiency by fostering informed decision-making based on fundamental analysis principles.

KEYWORDS: Investment, Retail Investor, Stock Market, Fundamental Analysis, Financial Market.

Introduction

In the dynamic world of finance, investors are constantly seeking reliable methodologies to inform their investment decisions. Fundamental analysis, a cornerstone of investment strategy, offers a systematic approach to evaluating securities based on various intrinsic factors such as financial statements, economic indicators, and industry trends. However, the efficacy and relevance of fundamental analysis have been subject to scrutiny and debate within the investment community. This paper aims to delve into the intricate realm of investor perceptions towards fundamental analysis. By examining the attitudes, beliefs, and behaviours of investors, we can gain valuable insights into the role and significance of fundamental analysis in contemporary financial markets. This research aims to contribute to a nuanced understanding of fundamental analysis from the perspective of investors, providing valuable insights for practitioners, academics, and policymakers alike. Through empirical analysis and theoretical synthesis, we endeavour to shed light on the evolving landscape of investment decision-making and the role of fundamental analysis therein.

In recent years, the financial landscape has witnessed a proliferation of alternative investment strategies, including quantitative modelling, algorithmic trading, and behavioural finance approaches. Amidst this proliferation, fundamental analysis remains a cornerstone of traditional investment philosophy, revered for its emphasis on understanding the intrinsic value of securities and its long-term orientation. However, as markets become increasingly efficient and information more readily accessible, some investors question the efficacy of fundamental analysis in generating alpha or outperforming the broader market. Sceptics argue that in an era dominated by high-frequency trading and algorithmic strategies, the informational edge provided by fundamental analysis may be eroding, leading to diminished returns and heightened volatility. Conversely, proponents of fundamental analysis contend that while market dynamics may evolve, the underlying principles of sound investing remain timeless. They emphasize the importance of fundamental analysis in identifying undervalued assets, assessing business fundamentals, and mitigating risk over the investment horizon. Moreover, the advent of big data analytics, machine learning, and artificial intelligence has ushered in a new era of quantitative

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fundamental analysis, wherein traditional metrics are augmented by sophisticated algorithms and predictive models. This fusion of traditional and cutting-edge methodologies has broadened the scope and utility of fundamental analysis, enabling investors to extract actionable insights from vast datasets and complex market interactions. Yet, amidst these advancements, the human element of investing remains paramount. Behavioural biases, emotions, and cognitive heuristics continue to shape investor perceptions and decision-making processes, often deviating from rational expectations and efficient market hypotheses. Understanding how these psychological factors influence investors' interpretation and application of fundamental analysis is essential for unravelling the complexities of financial markets. In conclusion, investor perceptions towards fundamental analysis are multifaceted, reflecting a dynamic interplay of traditional wisdom, technological innovation, and psychological biases. By exploring the nuances of these perceptions, we can gain a deeper understanding of the enduring relevance and evolving dynamics of fundamental analysis in the modern investment landscape. This research endeavour smhammeeks to contribute to the ongoing dialogue surrounding investment strategy and decision-making, offering valuable insights for investors, researchers, and practitioners alike.

Review of Literature

Bentes and Navas (2013) found that fundamental analysis lowers the risk of investors who wants to buy and hold their investment in stock market. It was also stated that it helps mangers to find the volatility in the stock of companies and make a better policy for improvements. It was also concluded that this analysis provides an opportunity to investors to take decision based on the value of companies not on the market. Fundamental analysis has significantly positive impact in predicting the actual value of for the investment. **Manju and Parmod (2020)** reveal that fundamental analysis analyze the market curmastances and the presentation of the stock to settle on correct choice of putting resources into the correct stock at perfect time. It was also found from the study that comparative analysis were was helpful in suggesting better stock for the investment. **Figurska and Wisnie (2016)** through his study on fundamental analysis possibility of application on real estate market described the different aspects of fundamental analysis in real estate market. It was observed form the study that fundamental analysis has potential in valuation of real estate market also. However it was also observed that there is a requirement of further suitable standards in real sector market for analysing and giving proper weightage to different aspects. **Muhammad and Ali (2018)** found that there is a strong correlation between various fundamental ratios with the prediction power of stock market. C.R., Leverage and EPS has significant correlation with stock price prediction. **Abranell and Bushee (1997)** found that the macroeconomic variables such as inflation, GDP, as well as firm specific variable have significant relationship with future earning of the firm. Most of the fundamental signals are linked with the earnings. Analyst forecast revisions are associated with fundamental signals. It is also revealed that the analyst doesn't use the information signals in their decisions effectively. **Abarbanell and Bushee (1998)** examined that information contained in fundamental analysis like change in inventory; capital expenditure and effective tax rate are associated with the generating return. It is also revealed that firm size variable is not associated with the abnormal return. **Mukhherji and et al. (1997)** in his study state that book market, debt-equity ratio, sales price and MVE are significant impact on the stock return. E/P is neutral effect and beta is negatively correlated with the return. **Jagadeesh (2000)** revealed that the use of technical analysis can add value to the investment process and this can be improved by automated algorithms. **Kumara (2017)** revealed that risk has significant impact on the pattern of investment. More than half of the selected investor has low risk tolerance capacity. Demographic variables significantly impact on risk appetite scores. **Upadhyaya (2020)** through his study argued that investor's behaviour is significantly affected by herding and information leak and by rational decisions. Most of the investors take rational decision based on information. It is also stated that investors rely on fundamentals before making decisions.

Objective of the Study

- To explore the awareness of the retail investors in stock market.
- To examine the sentiments of retail investors towards fundamental analysis technique.

Research Methodology

- **Data Collection:** For the purpose of the study primary data was collected through schedule from the 100 respondents who invest in stock market. Only retail investors were selected for the purpose of the study.

- **Sampling Technique:** convenience sampling method was used to select the respondent of the study.
- **Statistical Tools:** statistical tools like Percentage, chi-square test and Likert scale were used for the purpose of analysis of data.

Analysis and Interpretation

Table 1: Average Annual Investment made by respondents

Range of Investment (Annually)	Percentage (%)
>20000	10
20000-50000	34
50000-100000	40
More than 100000	16

Table 1 showed the average annual investment made by respondents in stock market. It is observed from that maximum (40%) investors invest within a range of Rs. 50000-100000 annually and only (10%) from the selected respondents invest less than Rs. 20000 annually in stock market.

Table 2: Preference of Time for Investing in Stock Market

Time Period	Percentage of Respondents
Long term	61
Short term	39

Table 2 explicit the time horizon for which the investors likes to invest in stock market. Maximum (61%) of the selected respondents invest in stock market for long period of time while only 39% like to invest for short term period.

Table 3: Factor Considered by Respondents While Investing in Stock Market

Factor	Percentage
Risk	23
Return	25
Both	52

Table 3 examined the factors considered by respondents at the time of investing in stock market. The table showed that maximum investors (52%) consider both risk and return while investing in stock market. It is also observed that 25% consider return factor and 23 % give consideration to risk factor only.

Table 4: Awareness of Respondents towards Fundamental Analysis

Aware about Fundamentals	Percentage (%)
Yes	93
No	07

Table 4 data present the awareness level of selected respondent investors towards fundamental analysis technique of stock selection. It is observed from the data that 93% of the selected respondents were aware while 7% of the respondents were not aware about fundamental analysis tech

Table 5: Source of Information Used by Respondents

Source	Percentage (%)
Newspaper	13
Annual reports of company	44
Stock exchange	31
Government publication	10
Any other	2

Table 5 explained the source of information used by the investors for fundamental analysis. The table showed that maximum 44% of the respondents use annual reports of company for analysis followed by stock exchange information (29%) , newspaper (13%) ,government publication (10%) and only 2 % of the respondents use other source of information for analysis .

Table 6: Average Time Spent by Respondents on Fundamental Analysis

Time Spent (in Hours)	Percentage of Respondent (%)
0-2	72
2-4	24
4-6	4
More than 6	0

Table 6 represents the daily time spent by respondents on fundamental analysis of data. The data showed that maximum (72%) of the respondents spent (0-2) hours while minimum 4 % respondents spent (4-6) hours daily on analyzing the fundamental of the company.

Table 7: Preference of Respondents to Various Techniques of Fundamental Analysis

Fundamental Technique	Percentage of Respondents (%)
Economic analysis	19
Industry analysis	27
Company analysis	54

Table 8 explained the most preferred technique of fundamental analysis by the respondents. 54% of the respondents prefer company analysis, 27 % industry analysis and only 19% prefer economic analysis technique of fundamental analysis.

Table 8: Preferred Technique of Economic Analysis used by Investors

Technique	Percentage (%)
GDP Analysis	38
Inflation rate analysis	25
Interest rate	24
Economic and political analysis	13

Table 8 examined the method of analysis used by respondents for economic analysis. Data showed that maximum (38%) respondents like to do GDP analysis while minimum (13%) like economic and political analysis to make decision in stock market. At the same time 25% investors like inflation rate analysis and 24% interest rate analysis.

Table 9: Preferred Technique of Industry Analysis used by Investors

Technique	Percentage (%)
Production factor	38
Competitiveness in industry	47
Government Regulation	15

Table 9 showed the technique of industry analysis used by the respondents. Maximum (47%) give preference to examine the competitiveness in the industry while minimum (15%) gives preference to government regulation at the time of industry analysis.

Table 10: Responses of Respondents to Company Analysis Indicators

	Indicator	1 ST Rank	2 ND Rank	3 RD Rank	4 TH Rank	Value At significant level 5%
A	Profit earning ration(p/e) ratio	18	23	11	41	Degree of freedom 3 (4-1)=9 Chi-square statistic- 22.66 p-value .0085
B	Earning per share (eps)	22	16	27	28	
C	Dividend payout (p/e) ratio	37	24	29	3	
D	Return on equity (roe)	16	30	26	21	

H₀: There is no significant difference between choices of all respondents.

H₁: There is a significant difference between choices of all respondents.

Results: Since the calculated chi-square statistic (22.66) exceeds the critical value (16.92) and the p-value (.0085) is less than .005, we reject the null hypothesis. Therefore, there is significant evidence to suggest that there is difference between the respondent's responses for the four options.

Table 11: Statement: Fundamental Analysis is Helpful in Decision Making while Investing in Stock Market

Responses	No. of respondents	Percentage of Respondents (%)
Strongly Agree	25	26.88
Agree	35	37.63
Neutral	20	21.51
Disagree	10	10.75
Strongly Disagree	3	3.23

Explanations

A large percentage (64.56%) of respondents selected 'strongly agree' or 'agree'; it indicates a positive sentiment towards the statement. Furthermore a notable portion of respondents (21.51%) selected the 'neutral' option. It is also considerable that approximately (13.98%) respondents choose either disagree or 'strongly disagree'.

Major Findings

- A significant majority of respondents are aware about the technique of fundamental analysis.
- Majority of respondents rely on annual reports and stock exchange information for the analysis of fundamental analysis of the company stock.
- Company analysis is the most preferred technique in fundamental analysis among majority of the respondents.
- A significant difference was found in the preference of company analysis indicators between respondents.
- A significant majority of respondents hold positive sentiments towards the fundamental analysis decision making of stock market investment.

Conclusion

The findings suggest that there is a wide spread awareness among investors regarding the technique of fundamental analysis, company analysis emerges as the most preferred technique among respondents, although there is significant difference in preferences regarding specific indicators within company analysis. The findings also suggest a significant impact of fundamental analysis in stock market investment decision, indicating its perceived value and importance in the investing process. These insights underscore the significance of fundamental analysis in shaping investors perception and strategies in the dynamic realm of the financial market.

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