Price Movements in the Stock Market

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Absrtact- **This paper contains an analysis of the number of stock prioes which advanced and declined on The New York Stock Exchange on each trading day during a four year period that price movemenis in a stock marker are of an essentially random nature.It appears, however, that prices of individual stocks do not move independently.There is a sirong tendency for prices to move in unison5 either up or down.**

I. INTRODUCTION

The Indian capital Market has witnessed a tremendous growth. There was an explosion of investor interest during the nineties and an Equity Guilt emerged in statutory legislations has helped the capital market. Foreign Exchange regulation act is one such legislation in this direction. An important recent development has been the Entry of Foreign Institutional investors are participants to the primary and secondary markets for the securities. In the past several years, investments in developing countries have increased remarkably. Among the developing countries India has received considerable capital inflows in recent years. The liberalization policy of the government of India has now started fielding results and the country is poised for a big leap in the industrial and economic growth. The Economy of the country is mainly based on the development of the corporate sectors. A capital market is a market for securities (debt or equity), where business enterprises (companies) and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year, as the raising of short-term funds takes place on other markets (e.g., the money market).

The capital market includes the stock market (equity securities) and the bond market (debt).

The following are some factors that affect stock prices

• Inflation: The rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. Central banks attempt to stop severe inflation, along with severe deflation,

in an attempt to keep the excessive growth of prices to a minimum.

• Interest Rates : The amount charged, expressed as a percentage of principal, by amender to a borrower for the use of assets. Interest rates are typically noted on an annual basis, known as the Annual Percentage Rate (APR).

• Deflation: A decline in prices, often caused by a reduction in the supply of money or credit. Deflation can be caused also by a decrease in government, personal or investment spending..

• Exchange rates: the value of one currency for the purpose of conversion to another.

II. REVIEW OF LITERATURE

Bennet, James A.et.al (2001) have conducted a study on “can money flow predict is defined as the difference between up stick and down stick dollar trading volume. The study says that despite little published research regarding its usefulness, the measure has become an increasingly popular technical indicator because of its own means. The study summarizes its most important finding that money flow appears to predict across- sectional variation in future returns. Their predictive ability is sensitive, however, to the method of money flow measurement Daigler Robert T.et.Al., (1981)2 have conducted a study on the development and testing of trading rules on the New York stock Exchange which are based on the discriminant

Function. The study analysis the ability of daily technical indicators to predict future changes in the "standard and poor's 500 index". The study also signifies that the Technical indicators possess predictive ability to the extent that investor's possess predictive ability to the extent that investors believe they contain information on Future Market developments, and/or to the extent that the indicators reflect changing expectations among market participants. The study summarizes that the initial analysis of the relationship between daily technical data and future market movements is accomplished by examining the statistical difference between the group means (computed via the usual F test applied to the group means estimated from the discriminant function) of predicted "up days" versus predicted "down days" ("Up" and "down" days are define shortly). The statistical analysis is extended by classifying the observations into groups. Micko Tanaka Yamawaki et. Al., (2007) have conducted a study on the

Adaptive use of Technical Indicators for predicting the Intra-Day price movements. The researcher has proposed a system to select the best combination of technical indicators and their parameter values adaptively by learning the patterns from the tick-wise financial data. In this paper, the researcher has shown that this system gives good prediction on the directors of motion with the hitting rate at 10 ticks ahead of the decision point as high as 70% for foreign exchange rates (FX) in five years from kl1996 to 2000 and 8 different stock prices in NYSE market in 1993 The study concludes that the tick-wise price time series carry a long memory of the order of at least a few minutes, which is equivalent to 10 ticks.

III. OBJECTIVES OF THE STUDY

To study how the movement stock prices of selected securities

• To analyze the share price behavior of the selected industries.

• To understand fluctuations of share price over a period of time

• To Study how fluctuations in stock prices influence the buy or sell decision.

• To predict the day today Fluctuations in the stock market using Technical Analysis and to study the price movements in the stock exchange.

• To study the current trend and strength of the trend of selected industry

LIMITATIONS OF THE STUDY

• The study is constrained to limited sectors only.

• Technical analysis is only is used

• This study is based on secondary data only and not on primary data.

IV. RESERARCH METHODOLOGY

RESEARCH DESIGN: The research design adopted is Analytical Design.

DATA COLLECTION: Secondary data was used for the analysis. The data that is the closing prices of different stocks were obtained from the National Stock Exchange (NSE) website of 10 companies from two sectors has been taken for the study. SAMPLE: For the study the top 5 companies under the IT and Healthcare sectors have been selected. The sectors are identified on the basis of their contribution to the country's GDP the IT sector Healthcare Sector TCS Limited SunPharmaceutical Industries Ltd Infosys Pvt Ltd Cipla Ltd HCL Technology Dr. Reddy's La Laboratories Ltd Wipro ltd Cadila Healthcare Ltd Tech Mahindra Ranbaxy Laboratories Ltd

PERIOD OF STUDY: The prices of the stocks were for about a period of one year from January 2012 to the December 2012.

TOOLS USED FOR ANALYSIS: The tools used to understand the price fluctuations of particular stocks are

• Simple Moving Average

• Relative Strength Index

SIMPLE MOVING AVERAGE

Simple moving average is the most commonly used tool in technical analysis to understand the price movement of securities. The moving average helps the investor to make decisions whether to buy or sell a particular stock at a particular point of time. The average value is taken for a pre-determined time period is considered for analysis of the selected stocks. They create buy or sell signals when the move across the historical prices of those stocks. Downward penetration of the raising average indicates a possibility of further fall in the price of a particular stock. It creates a sell signal. Upward penetration of the falling

average indicates the possibility of further raise in the price of a particular stock. It creates a Buy Signal.

RELATIVE STRENGTH INDEX

The Relative strength Index (RSI) was developed by Wells Wilder. It is an escalator used to identify inherent technical strength and weakness of a particular stock in the market Average gain = Total of Gains for the determined time period / Time period Average Loss = Total of Losses for the determined time period / Time

Period RS = Average Gain/Average Loss The broad rule states, if the RSI crosses 70 it creates a sell signal since

the script is overbought and it leads to a fall in the future stock prices. If the RSI falls below 30, it creates a buy signal since; the script is oversold which leads to a upward trend in the future stock prices.

DATA ANALYSIS AND DISCUSSIONS

Time simple moving average (SMA) for all selected stocks is calculated. The SMA of every individual stock I compared with its daily closing prices. The following chart represents the SMA's intersection with the

closing price of TCS Limited.

FINDINGS AND SUGGESTIONS

The securities market is highly volatile in nature. Inspire of its volatility the investor has chances to make comfortable profits with the help of moving average trend line and the relative strength Index trend lines.

This trend line helps the investors to decide on either to hold or to buy or to sell the scripts at t a determined period of time. The scripts of Infosys, Wipro and Dr. Reddy's laboratories have wide possibilities to grow in the near future. The investor can continue to invest or hold the scripts for some more time. The Rise of those scripts range between 30 – 70 which provides a clear picture that they are neither overbought nor oversold. The RSI trend line for most of the selected scripts show a possibility to earn profits though there is a fall in its current share prices. The RSI trend line of Sun Pharma indicates a positive sign to earn profits thought the movin average trend line shows a sell signal. The scripts of Ranbaxy laboratories have a positive sign for growth. Since, Volatile markets are characterized by wide price fluctuations and heavy trading. They often result from an imbalance of trade orders is one direction, wide price fluctuations are a daily occurrence on the world's stock markets as investors react to economic business and political events. Market watchers see high volatility as a sign of investor nervousness which, in the counter-initiative world of market, is of course bullish. The investors can invest in th companies which are recovering out of either over brought or oversold condition since there might be a definite trend reversal in those stocks. It is also advised for the investors to hold the stock which keep fluctuating unless until the stock follows definite bearish or bullish trend. Therefore the investor can make investment not only following a particular indicator but by confirming the signal with several indicators for better returns.

REFERENCES

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