Valuation of Securities- Valuation of Equity Shares and Technical Analysis

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***Abstract*—Valuation of securities is one of the central functions in Investment and Portfolio Management. Investors, portfolio managers, and analysts rely on valuation techniques to estimate intrinsic value, compare it with market price, and make decisions regarding buying, holding, or selling securities. This paper focuses on the valuation of equity shares and examines the contribution of technical analysis to security valuation. Various equity valuation approaches such as dividend discount models, earnings-based methods, free cash flow approaches, and asset-based valuation are discussed in detail. Further, the paper elaborates on key technical tools such as charts, indicators, moving averages, support and resistance, and market psychology. The study emphasizes that fundamental valuation attempts to measure intrinsic value whereas technical analysis supports price prediction and timing of investment. A combined approach can significantly improve portfolio performance and risk management in volatile financial markets.**

***Keywords*— Equity Valuation, Security Valuation, Technical Analysis, Dividend Discount Model, Intrinsic Value, Stock Market Indicators.**

I. INTRODUCTION

Financial markets play a vital role in channelizing savings into productive investments. For investors to allocate capital efficiently, it is essential to estimate the fair value of securities. Valuation reduces uncertainty and speculative behavior by providing a rational basis for decision-making. Among financial assets, equity shares assume special importance because they represent residual ownership and involve uncertain returns in the form of dividends and capital appreciation.

However, stock prices do not always reflect true value due to market inefficiencies, behavioral biases, speculation, and information asymmetry. Therefore, equity valuation techniques are required to estimate intrinsic value and compare it with market price. If securities are undervalued, investors may purchase them, whereas overvalued securities may be avoided or sold. In addition to fundamental valuation, traders increasingly rely on technical analysis to interpret price movements and investor sentiment.

This paper attempts to provide an integrated understanding of valuation of equity shares and technical analysis and highlights how both approaches complement each other.

II. VALUATION OF SECURITIES: CONCEPT AND IMPORTANCE

Security valuation refers to estimating the present value of future cash flows generated by financial assets. Equity securities generate uncertain dividends and capital gains, whereas debt securities generate relatively fixed interest income. The valuation process uses discounting techniques to recognise the time value of money, acknowledging that future cash flows are worth less than current cash flows. Valuation serves several important objectives in financial markets. It helps investors assess the attractiveness of investments, enables the construction of efficient portfolios, determines the issue price of shares during initial public offerings, supports decisions related to mergers and acquisitions, assists in tax and regulatory assessments, measures corporate performance, and facilitates sound financial planning. When valuation is inaccurate, securities may be mispriced, leading to speculative bubbles or market crashes. Therefore, the development and application of valuation models is essential to maintain market efficiency and protect investors.

III. VALUATION OF EQUITY SHARES

Equity valuation aims to estimate the intrinsic value of ownership claims in a firm. Since shareholders receive returns only after satisfying all prior

obligations such as debt servicing and other liabilities, the risk associated with equity investment is relatively high, which makes valuation both complex and crucial. The value of equity shares is influenced by a number of factors including expected earnings and profitability, dividend policy and payout ratio, future growth opportunities, capital structure and leverage decisions, level of competition within the industry, macroeconomic factors such as inflation and interest rates, and the quality of corporate governance and managerial competence.

A. Intrinsic Value vs Market Price: Intrinsic value refers to the true worth of a share based on fundamental factors, while market price is determined by demand and supply forces in stock exchanges. In practice, market prices often deviate from intrinsic values due to rumors, short-term speculation, herd behaviour, emotional reactions, and market overreactions to news. Rational investors try to take advantage of such mispricing by purchasing undervalued securities and selling overvalued ones, thereby following a buy-low, sell-high strategy.

IV. DIVIDEND DISCOUNT MODELS (DDM)

Dividend-based valuation assumes that the value of an equity share equals the present value of expected future dividends. In the zero-growth model, it is assumed that dividends remain constant indefinitely. The value of the share is then given by $P_0 = \frac{D}{K_e}$, where D is the constant dividend and Ke is the required rate of return. This approach is suitable for firms with very stable dividend policies and negligible growth prospects. Constant-growth or Gordon Growth Model extends this concept by assuming that dividends grow at a constant rate g.

The value of the share is then expressed as $P_0 = \frac{D_1}{K_e - g}$ where D1 is the expected dividend next period. This model highlights the strong relationship between growth, risk, and return, suggesting that firms with higher sustainable growth tend to command higher valuations. In reality, many firms do not grow at a single constant rate over time. Young firms usually experience rapid growth during their early years, followed by a transition period and eventually a stable maturity phase. Multi-stage growth models capture these changing growth phases and are widely applied particularly in the valuation of technology firms and emerging companies.

V. EARNINGS-BASED VALUATION METHODS

Earnings-based valuation relates the value of a share to the profits generated by the firm. In the earnings capitalization method, the value of the share depends on maintainable earnings and an appropriate capitalization rate. Although this method is simple and widely applied, it may be affected by accounting policies that influence reported earnings. Another widely used approach is the Price–Earnings (P/E) multiple method, in which the market value per share is determined by multiplying earnings per share by the market-determined P/E ratio. This method reflects investor expectations regarding a firm's future growth, risk profile, and profitability.

VI. CASH FLOW BASED VALUATION

Cash flow based valuation models attempt to overcome the limitations of earnings-based models because cash flows are less susceptible to accounting manipulation. The Free Cash Flow to Equity (FCFE) method estimates the value of equity by discounting the cash flows available to equity shareholders after meeting interest, taxes, and reinvestment requirements. The Free Cash Flow to Firm (FCFF) method, on the other hand, values the entire firm first and then deducts debt to determine the equity value. In this method, cash flows are typically discounted using the weighted average cost of capital. These cash-flow-based techniques are widely applied in corporate finance, valuation consulting, and investment banking.

VII. NET ASSET VALUE (NAV) METHOD

The Net Asset Value method calculates the value of equity by subtracting total liabilities from total assets and dividing the remainder by the number of outstanding equity shares. This approach is especially useful in valuing real estate companies, investment trusts, and other asset-heavy firms, as well as in liquidation situations where assets are being sold and distributed. However, the method has a major limitation because it does not incorporate the earning potential of the firm and therefore may not reflect its true ongoing value.

VIII. TECHNICAL ANALYSIS

Technical analysis involves the study of past market-generated data, primarily price and volume, to forecast future price trends. Unlike fundamental analysis, which seeks to estimate intrinsic value, technical analysis is concerned with investor behaviour and market psychology. It operates on three core principles: the belief that market price reflects all available information, that prices move in identifiable trends, and that historical price patterns tend to repeat because human behaviour is often repetitive.

Charts are central to technical analysis as they visually represent price movements over time. Commonly used chart types include line charts, bar charts, candlestick charts, and point-and-figure charts. Candlestick patterns such as doji, hammer, and engulfing formations are frequently used to identify potential reversals in trend. Another important concept is support and resistance. Support represents a price level where buying interest tends to prevent further price decline, whereas resistance represents a level where selling pressure prevents further price increase. When price breaks through these levels, new trends are often signalled.

Moving averages are used to smooth short-term price fluctuations and identify overall market direction. Crossovers of short-term and long-term moving averages generate buy and sell signals for traders. Technical analysts also rely on indicators and oscillators such as the Relative Strength Index, Moving Average Convergence Divergence, Bollinger Bands, and On-Balance Volume. These indicators help assess momentum, overbought and oversold conditions, and the strength of prevailing trends.

IX. FUNDAMENTAL ANALYSIS VS TECHNICAL ANALYSIS

Fundamental analysis focuses on evaluating the intrinsic value of securities by examining economic, financial, and company-specific factors, thereby answering the question of what to buy. Technical analysis, in contrast, emphasizes price movements and trading behaviour, helping investors decide when to buy or sell. Long-term investors generally rely more on fundamental valuation, whereas short-term traders depend largely on technical signals. In practice, both approaches complement each other, and combining them provides a more comprehensive framework for investment decision-making.

X. CONCLUSION

Valuation of securities is an essential component of investment analysis and portfolio construction because it provides a rational framework for determining the worth of financial assets in an uncertain market environment. Equity valuation techniques such as dividend discount models, earnings-based approaches, cash flow models, and asset-based valuation enable investors to estimate the intrinsic value of shares based on expected future benefits. These models guide decisions relating to buying, holding, or selling securities and help investors avoid reliance on speculation or rumor-driven price movements.

However, real-world financial markets are influenced not only by fundamentals but also by behavioural factors. Investor emotions, herd behaviour, overreaction to news, and speculative trading can cause significant deviations between intrinsic value and market price. Technical analysis plays an important complementary role in such situations by studying price movements, volume patterns, and chart signals to identify trends and reversal points. It helps investors understand market psychology and improve the timing of entry and exit decisions.

The integration of fundamental valuation and technical analysis provides a more comprehensive and balanced approach to investment decision-making. While fundamental analysis answers the question of what to buy by estimating true value, technical analysis answers when to buy or sell by interpreting market trends. When used together, these approaches enhance the accuracy of security assessment, improve portfolio returns, and contribute to better risk management. In the dynamic and volatile financial markets of today, the ability to combine analytical valuation tools with an understanding of market behaviour is indispensable for investors, portfolio managers, and financial institutions.

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