

The Technical Analysis for Gaining Profitability on Large Cap Stocks

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Abstract: Investor always seeks for new information to have more information and for laying out money in the expectation of receiving more money in the future. Usually, stocks are classified in to three broad categories as income, growth and value. In which Growth companies are the one who reinvest their earnings back into the company as opposed to paying out dividends to continue spurring growth. During bullish trend, these stocks outperform value-based stocks because of environmental risk and the perceived low risk in the markets. On the contrary, growth stocks tend to underperform value stocks during bearish trend. This study aims to focus on strategically decide on buying and selling of growth-oriented stocks with the help of technical indicator named Bollinger's band and Momentum a two widely preferred indicators which when used simultaneously provides with a more accurate decision making.

Key word: Stock, Technical Indicator, Bollinger Band, Momentum

1. INTRODUCTION

Investors love to put stocks into various categories to make it easier to identify them. There are probably over one dozen stock classifications like large-cap, growth, income, cyclical, and interest-rate-sensitive stocks. In this paper we will discuss extensively by understanding what large cap-based stock are with the help of ITC Limited [ITC] a number one large cap-based stock. With the help of various technical indicators application strategic decisions are taken for maximum profitability. Before going into this topic let us first understand what large cap-based stock all is about.

Large cap refers to **a company with a market capitalization value of more than \$10 billion**. Also referred to as "big cap," large cap describes a class of popular stocks preferred by investors for their stability. Investing in large cap stocks requires proper selection based on certain indicators. The secret to make profits is to construct portfolio of good stocks and stay invested for a long period of time say 5 to 7 years. Here are some of the indicators which can be used to pick stocks. All large-cap companies are listed at the top of recognised stock exchange indices around the world. India's Nifty 50 hosts the top fifty large-cap stocks in India which are the most traded in the stock market. Large-cap companies are well-established and have attained financial maturity. Companies in large-cap stocks list have been in business for a long period. These stocks are, in most cases, more expensive than other investment options.

Earnings per share happens to be one of the most critical equity data for investors. It stands for net profit which the company has earned on every share. EPS impacts the market price of equity shares directly. Any changes taking place in EPS are immediately visible in the market price of shares. A close relationship has been observed between EPS and market price of shares. An increase in EPS is accompanied by a rise in the stock price. Conversely, a fall in EPS results in falling of stock prices. Thus, EPS has become the most tracked financial parameter of companies. Apart from the above analysis another way to strategically determine the right time to enter and exit is through application of technical indicator.

2. OVERVIEW OF THE STOCK MARKET

Investment in stock market has become the most important pathways to financial success. The two major reasons behind investing in shares is to sell when the stock price rises and vice versa and the other reason is to collect the dividends paid on the stock. There are three categories of stock like income, value, and growth-based stock. There are many stocks which satisfies both the objectives also. In this study particularly the researchers have chosen the large cap-based stock to trade for and the applicability of three indicators to pinpoint the right time to buy or sell the stock.

ITC is one of India's foremost private sector companies with a Gross Sales Value of ₹ 74,979 crores and Net Profit of ₹ 13,032 crores (as on 31.03.2021). ITC has a diversified presence in FMCG, Hotels, Packaging, Paperboards & Specialty Papers and Agri-Business. ITC's aspiration to be an exemplar in sustainability practices is manifest in its status as the only company in the world, of its size and diversity, to be carbon, water and solid waste recycling positive. In addition, ITC's businesses and value chains create sustainable livelihoods for more than 6 million people, a majority of whom represent the poorest in rural India.

3. RESEARCH METHODOLOGY

A research design is the plan or programme of research. It is the general blueprint for the collection, measurement, and analysis of data. The present study aims at study the different technical indicator to have better trend analysis. Among various types of indicators in this, study particularly two indicators, which are widely preferred individually. The two indicators that were selected for the prediction of movement of trend in future are Bollinger Band, and Momentum. The secondary data has been collected from the official NSE web portal. The objective is to simulate of two technical indicators on stock movement and help investor to have a better decision making.

3.1 Key Technical Indicator for Effective and Profitable Strategy

A technical indicator is a series of data points that are derived by applying a formula to the price data of the stock. Technical indicators provide unique perspective on the strength and direction of the price action of the strike price. Indicators serve three main functions: to alert, to confirm and to predict. There are hundreds of indicators in use today. We are focusing on Bollinger Bands and Momentum indices in this paper.

3.1.1 Bollinger Bands - The bands encapsulate the price movement of a stock, providing relative boundaries of highs and lows. The crux of the Bollinger Band indicator is based on a moving average that defines the intermediate term “trend” based on the time frame you are viewing. Bollinger Bands are comprised of three lines – the upper, middle, and lower band. The middle band is a moving average, and its parameters are chosen by the trader. The upper and lower bands are positioned on either side of the moving average band. The trader decides the number of standard deviations they need the volatility indicator set at. The number of standard deviations, in turn, determines the distance between the middle band and the upper and lower bands. The position of these bands provides information on how strong the trend is and the potential high and low-price levels that may be expected in the immediate future.

3.1.2 Momentum - Momentum measures the rate of the rise or fall in stock prices. From the standpoint of trending, momentum is a very useful indicator of strength or weakness in the issue's price. History has shown us that momentum is far more useful during rising markets than during falling markets; the fact that markets rise more often than they fall is the reason for this. In other words, bull markets tend to last longer than bear markets. A momentum indicator is depicted by a line that oscillates around 100. Since a momentum indicator is an oscillator, it must be used inside the price-trend analysis. It measures the speed of velocity of the price changes for the underlying security. It compares the current price in relation to the price ‘N’ period ago.

4. STATEMENT OF THE PROBLEM

The variety of trading strategies that can provide traders with the right indications (entry and exit prices) at the right time in the stock market. Traders and investors face a difficult challenge in accurately predicting strike rates. A technical trading strategy is made up of a collection of trading rules for generating trading signals. A simple trading system usually has one or two parameters for varying the timing of trading signals. The results of the parameterizations are the trading rules found in a system. Technical research assumes that stock prices follow patterns determined by investors' continuously shifting perceptions in response to various forces. Technical analysis is based on the idea that history repeats itself and that past prices can be used to predict future market direction. “The Technical Analysis for Gaining Profitability on Large Cap Stocks”.

4.1 Objectives

The objective of this paper is to analyze the future trend of large cap-based stock with the help of application of two most widely used indicators.

4.2 Scope of The Study

The aim of this study is on applying two technical indicators on a particular large cap-based Stock market company to help investor in reducing the trading cycles of investment with better profits in the end with timely decision making.

5. ANALYSIS

5.1 Without apply any Setting with different time frame in ITC stock



Figure No. 5.1.1- Without apply any Setting with 5 Min time frame in ITC stock



Figure No. 5.1.2- Without apply any Setting with daily time frame in ITC stock

From the **Figure No. 5.1.1 & Figure No. 5.1.2** it is observed that investor cannot find any entry point for buying or selling stock for any moment. Because of that conformation investor may have chance to lose their money and investor never make profit from the share market.

5.1 Buy and Sell Signals - Bollinger Bands

You will also note that at the point where buy or sell signal is generated is the crossover point. At the point say, buy signal is made and the indicator turns green you will see, on hovering the cursor at this point, the closing price is higher than indicator value. Similarly, when a sell signal is generated, and the indicator turns red, the closing price will be seen lower than the indicator value. There is different setting for different time frame to archive different goals. The bellow table [Table 1 – Different Settings with different time frame of Bollinger Bands] display setting for multiple time frame.

Table 3.1.1 – Different Setting with different time frame of Bollinger Bands

Sr. No.	Goal	Time Frame of Chart
1	Intraday Trading	5 Min
	Positional Trading	Daily



Figure No. 5.1.1 - Bollinger Bands with Time Frame -5Min

From the **Figure No. 5.1.1- Bollinger Bands with Time Frame -5Min** it is observed that when we are applied Bollinger bands indicator for to a particular stock like **ITC** charts for 5 Min time frame which is usually used for intraday trading or short-term trading, there are multiple buying and selling signal are generated with different time spam. In the above chart from the 8th date in the morning sell call is generated. Near about at 10th date after 10:15 buy call is generated and which is going till 14:30 the trend is changed and here trader can book profit.



Figure No. 5.1.2 - Bollinger Bands with Time Frame – Daily

From the **Figure No. 5.1.2- Bollinger Bands with Time Frame -Daily** it is observed that when we are applied Bollinger bands indicator for to a particular stock like **ITC** charts for daily time frame which is usually used for positional trading or long-term trading, there are multiple buying and selling signal are generated with different time spam. In the above chart in the starting off may market is in side wage, so no buy or sell call generated till September end trend is changed and here trader can book profit.

5.2 Buy and Sell Signals - Momentum

A trader can find buying or selling signal based upon Momentum indicator. The default setting of Momentum indicator is length 9 for finding buying and selling signal for intraday, positional, or long-term trading in stock market trading. When this indicator line crosses 0 – level and moves below negative region indicates market is trading in downward direction. When momentum line crosses the 0-level and goes in upward direction, so traders can initiate the buy signal. And when momentum line crosses the 0-level and goes in downward direction, so traders can initiate the sell signal.



Figure No. 5.2.1- Momentum, Time Frame - 05Min

From the **Figure No. 5.2.1- Momentum, Time Frame - 05Min**, it is observed that when we are applied Momentum indicator for stock like ITC on 5 min time frame, there will be multiple buying and selling signal are generated. This will help for booking small profit with small interval of time.



Figure No. 5.2.2- Momentum, Time Frame – Daily

From the **Figure No. 5.2.2- Momentum, Time Frame - Daily**, it is observed that when we are applied **Momentum** indicator for stock like ITC on daily time frame, there will be strong buying and selling signal are generated. This will help for booking profit with larger interval of time and trader can also go for next day trading.

5.3 Combination of All technical indicator**Figure 5.3.1 Combination of Bollinger Bands, Momentum for 5 Min time frame****Figure 5.3.2 Combination of Bollinger Bands, Momentum for daily time frame**

From the above all three-figure numeral **Figure No. 5.3.1** and **Figure No. 5.3.2** it is observed that when we are applied different indicator for multiple time frame 5min, and daily respectively. There are multiple buying and selling single generated in different time frame. From these three indicators a trader finds the exact entry point and proper exit from the market trade.

6. CONCLUSION

Thus, these two indicators when efficiently used helps in making exact technical analysis which in turn helps in identifying the right time to enter and get exited from the market. Since these indicators like Bollinger Band and Momentum uses its own past performance to predict the future movement, they become more reliable and effective in decision making of call and put option related to buying a particular stock trading.

7. ACKNOWLEDGMENTS

The researchers are grateful to the authors, writers, and editors of the books and articles, which have been referred for preparing the presented research paper. It is the duty of researcher to remember their parents whose blessings are always with them.

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