

Essay on technical analysis vs. fundamental analysis

[Business](#), [Marketing](#)



Technical Analysis is the study of market data from the past. Technical Analysis focuses primarily on the past data of volume and price. This analysis deals with the study of the response of the market in which the goods or services are marketed. Technical analysis relies on the trends of the past to predict the behavior or trend of the market in future. Price of stock and volume data can also be studied with technical analysis with a purpose to get the direction of the stocks in future (Talati). As far as trend analysis is concerned, it is one of the most important concepts of technical analysis. Trend analysis shows the direction of the market. The simple and complex movements of the lows and highs make a trend in trend analysis.

On the other hand, the Fundamental Analysis is based entirely on the demand and supply. There are various determinants which affect the price of any commodity by affecting the supply and demand. Fundamental analysis is done for the sake of creating a picture of the prices in coming future.

Fundamental analysis is also used for studying the financial details of the company for the purpose of investments. Cash flow and profit/loss statements are focused for fundamental analysis (Talati).

Both in business and financial markets, there are two main schools of thought i. e. technical and fundamental. Technical analysis takes the data from the past and uses it to predict the future movements about the price. Whereas fundamental analysis is used for analyzing the economic factors which are also called the fundamentals. Technical analysis use charts made up of past data whereas in the fundamental analysis, the fundamentals and financial statements can be followed for stocks. The time horizon for technical analysis can be short. In fundamental analysis the time span is

over a number of years. Technical analysis is more useful for a trade and fundamental analysis is primarily fruitful for taking investment decisions ("Technical Analysis Tutorial").

As far as pros and cons of both the methods are concerned, both fundamental and technical analyses have their unique advantages and disadvantages. In technical analysis, the data analyzed is based on the past and is more on the objective side. Charts easily show the definite direction where a company or firm is heading. Volume characteristics can easily determine the direction of price. The major disadvantage of technical analysis is that it cannot show the revenues and cash flow strength.

Technical analysis is not concerned with the profits a company is making. Instead, it is more focused on the volume and price. Fundamental analysis, on the other hand, gives a clear idea about the future prospects.

Fundamental analysis covers a longer period of time for decision making. Because of various statements involvement, it is time consuming and complex as compared to technical analysis. It is more focused on the economic side of the data ("Technical Versus Fundamental Analysis").

As far as stock is concerned, the best strategy to employ is to use both technical analysis and fundamental analysis. Fundamental analysis can be used as a preliminary for the determination of the buying decision. Technical analysis can then be employed as a second step to filter the stock process. The second part of my stock filtering process uses technical analysis. After finding a bunch of stocks that seem sound in a fundamental way, stocks can be further analyzed for finding those that show the best chart patterns for stock. Thus, it can be said that this approach of filtration is two-sided. The

technical analysis is then employed to decide about the buying and selling time. To cut a long story short, it cannot be concluded that which method of analysis is better as it totally depends on one's approach towards doing well in the stock market and make money accordingly.

I also think that conducting trade in an exact technical manner has the basic advantage of offering a sound methodology and proven test results. I think that if technical method is used, I can disconnect myself from the constant worry and hassle of decisions that are to be made on a daily basis. I also think that one can have a peaceful night sleep when he/she uses technical analysis as he/she doesn't involve his/her emotions and consequently affect the trading decisions. At the same time, I also believe that those who employ technical analysis in their trade conduct shall not ignore the availability of fundamental analysis as an open option for trading. This is for the reason that a change in route every now and then may direct a trader to an improved financial path (Litle).

References

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