



# Brainy's Articles on Share Trading\*\*

## *Funda-Technical Analysis* (Fundamental or Technical?)

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### **Introduction**

Here is a dilemma for many investors. We could use *fundamental analysis* to select stocks for our investment portfolios, and many people do this. Or we could use *technical analysis* to select the stocks, and many people do this. Or we could use a bit of both analysis styles — many people do this. But which of these approaches is best?

In using a mixture of these two styles, we could adopt a structured ***Funda-Technical Analysis*** approach to help provide some balance to the overall analysis, and to make it seem sensible. Don't forget to ask yourself "*does that seem sensible?*".

In this article in Brainy's series on Share Trading (number ST-2350), we take a look at these two analysis styles, and in particular at the structured ***Funda-Technical analysis*** approach. We also look at the key fundamental criteria that could be used for selecting quality stocks, and how to find those stocks.

### **Fundamental Analysis**

*Fundamental analysis* of a company involves analysing its financial position and state of health, including consideration of things like company profile, news and analyst opinions. Financial position can be determined from the historical information in the company's annual or half-yearly reports. Fundamental analysis is considered at the opposite end from technical analysis.

Some investors will want to study the fundamental details of a company before investing. At the other extreme, however, some investors will not care too much about the fundamentals. And somewhere in the middle of these two extremes are the investors who will want to view just a small amount of fundamental information.

There is some merit in using fundamental analysis when searching for companies in which to invest. This approach can help us to invest only in "quality" companies that should be able to stay around for the long term, and which should be able to produce acceptable returns on an ongoing basis. It might also help us to identify under-valued (or over-sold) companies. There is certainly a lot of scope for a lot of effort with analysing the large amount of available fundamental information.

BUT! there is a limit to how much we can rely on fundamental analysis. Many people used nothing but fundamental analysis during the GFC period (Global Financial Crisis of 2008-2009), and look at the results! Some people lost a significant portion of their savings due to their reliance on the fundamentals, and a belief that the stocks should not be as cheap as they were. Even though the going price in the market was a lot lower than they believed possible.

It is believed that some of the more successful investors do not rely solely on fundamental analysis for their investing decisions.

But it is possible to spend a lot of time analysing the fundamental data for any one company, so how much time should we spend on it? Well, the amount of time to spend, and the level of detail that an investor might go to, is purely dependent on the individual. There is not one right or wrong answer.

For more information about fundamental analysis, refer to eBook (PDF) Article **ST-2300**, "***Fundamental analysis***", and other relevant texts.

### **Technical Analysis**

Pure *technical analysis* is based on the study of share price and volume data, usually by studying the price charts. The reasoning behind this is the belief that the price chart reflects all known information about a company, and that there are clues in the price chart that can help to anticipate future price action.

Some technical analysts work on the belief that "absolutely everything is in the charts". That is, there

\*\* - The two words *trading* and *investing* are often used somewhat interchangeably.

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