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GF Markets Academy

Fundamental Analysis

Charts are a living indicator of fundamental analysis

-John Murphy

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Technical Analysis

- Since you are reading this e-book, it means you have already read about technical analysis. However, let's refresh your memory.

- Technical analysis is the study of past price movements that could predict future price movements. It is used to identify trading opportunities, understand the asset's activity and volume. It involves studying the candlesticks that are known to reflect all available information in the market.

Sentiment Analysis

- Sentiment analysis refers to the overall attitude, feelings and psychology of the investors in the financial markets. This can be a bullish sentiment about the markets in general, or a bearish sentiment about a specific sector, company, commodity, etc.

- This type of analysis can be influenced by fundamentals, like the Federal Reserve raising interest rates. Technical traders rely on market sentiment since it can influence the technical indicators and thus, can be used to benefit from short-term price movements.

Fundamental Analysis

- Fundamental analysis in accounting and finance terms is a method to assess the intrinsic value of a company by analyzing various macroeconomics and microeconomics factors. A macroeconomic factor is, for example, the state of the economy that the world, a country, or an industry has, and microeconomics factors are for example the management of company effectiveness.

- It points to the true value (intrinsic) of a stock. This is happening because stocks tend to be overvalued, undervalued, or fairly valued and investors need to know the true value to compare it and conclude a more formed decision.

Three parts of Fundamental Analysis

01 ECONOMIC ANALYSIS

02 INDUSTRY ANALYSIS

03 COMPANY ANALYSIS

Economic Analysis

- Economic analysis is influenced by macroeconomic factors that can influence and change the economy as well as change the price movements. This can be GDP, inflation, interest rates, and can create pressure on assets.

- An unemployment rate can affect a country's economy and ultimately the monetary policy. You must be able to understand how an increase in the unemployment rate will affect stocks and vice versa.

- In another scenario, what happens if interest rates are increased domestically? For example, if the U.S. increases rates and we see no economic changes in the European Union, then the EUR/USD contract should decrease in price given that the U.S. dollar has strengthened in relation to the Euro.

Industry Analysis

- Microeconomics is the study of supply and demand for an asset. These factors are specific to the asset and sector being analyzed. Factors that might impact supply and demand are consumer preferences, technological advancements and substitute and complementary goods.

- Improvements in technology could make it more efficient to produce goods, thus increasing supply while changing the products that consumers are interested in, decreasing demand.

- The pandemic made the technology sector very profitable due to the whole world's lockdown. People worked from home instead of going to the office, people had meetings via Zoom, which is why this stock went up while the rest were falling. Besides, the transportation sector did very bad since people did not need to move around that much.

12 - 18 Sep, 2022 Current time: 14:17 (GMT +3:00)

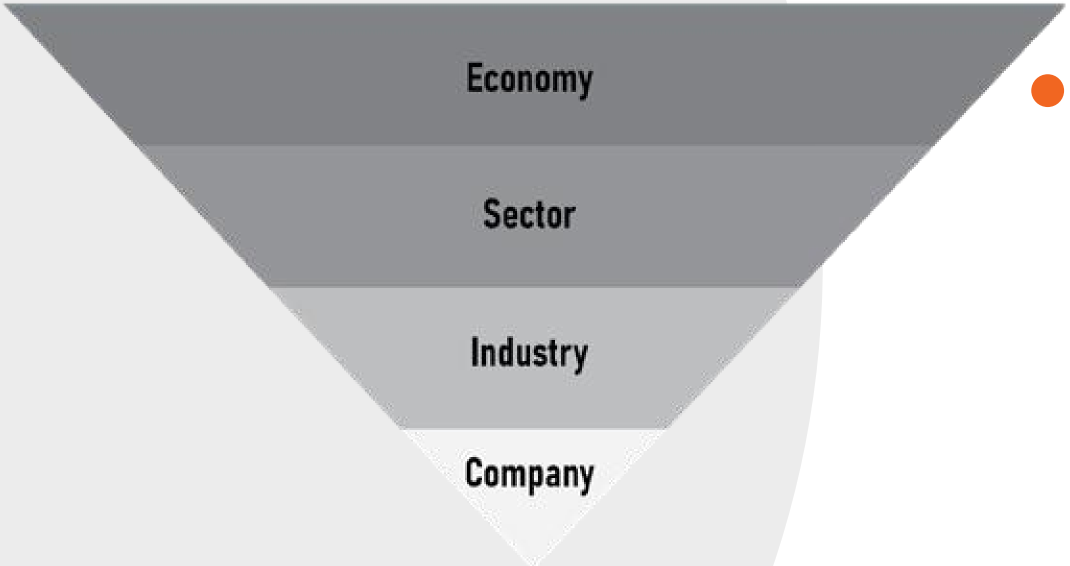
Time	Currency	Event	Act	Fcst	Prev
14:00	EUR	ECB Executive Board Member Lane Speech			
15:00	BRL	Retail Sales m/m		0.8%	-1.4%
15:00	BRL	Retail Sales y/y		1.8%	-0.3%
15:00	EUR	ECB Supervisory Board Member McCaul Speech			
15:30	CAD	Manufacturing Sales m/m		0.0%	-0.8%
15:30	USD	PPI m/m		0.3%	-0.5%
15:30	USD	Core PPI m/m		0.5%	0.2%
15:30	USD	PPI y/y		8.9%	9.8%
15:30	USD	Core PPI y/y		7.4%	7.6%
17:30	USD	EIA Crude Oil Stocks Change		0.778 M	8.845 M
17:30	USD	EIA Cushing Crude Oil Stocks Change		-0.848 M	-0.501 M
17:30	USD	EIA Crude Oil Imports Change		-0.611 M	1.357 M

Economic Calendar MQL5

Economic Calendar

- This specific economic calendar is focusing on the U.S. economy. Depending on the country you want to analyze you can find the economic calendars accordingly.
- Investors use an economic calendar to monitor events that have a high probability of impacting the financial markets, like interest rate decisions, payroll numbers, changes in the gross domestic product, and the consumer price index.
- Each day in the calendar lists multiple influential events in chronological order so that traders would be able to research and prepare. Every event has a volatility level that indicates the likelihood of that event impacting the markets. Usually, there are three levels, the highest of which means the event is expected to have a significant impact, while the effect of the other two will depend on other factors.

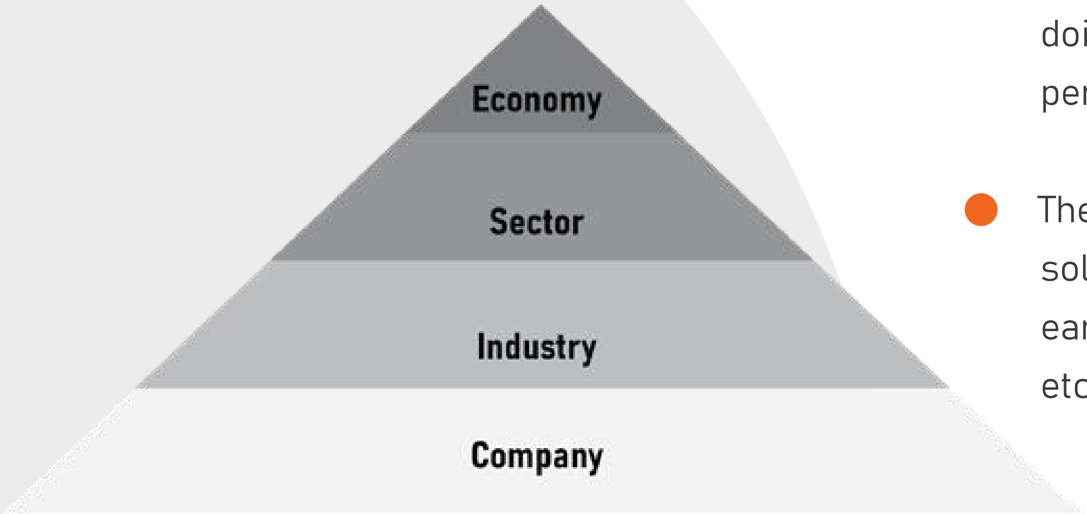
Top-Down Approach



- A top-down approach is when the investor starts analyzing the economy. To do so, they take various macroeconomic factors such as inflation rate, interest rates, and GDP level. This helps investors and analysts understand where the economy is standing, and which direction will the economy follow in the future. This allows them to understand how the industries and sectors will be affected and enable better investment opportunities.

- After doing the necessary analysis they select specific stocks in the industries with the most potential to identify the best investment in a specific company.

Bottom-Up Approach



- The bottom-up approach works in the exact opposite direction. Instead of analyzing the economy first, then the sector, industry and finally the company, they start from the company. Investors and analysts who use this type of approach base their thinking on the fact that a stock can perform much better than the overall industry. For example, let's assume that the technology industry is not doing well but Microsoft that is part of that industry is performing very well.

- The bottom-up is mainly examining microeconomic factors solely based on a company's performance. Such as earnings, net income, expenses, revenues, future growth etc.

Fundamental vs Technical

Fundamental analysis is the exact opposite of technical analysis. Technical analysis does not involve studying the intrinsic value of the stock. Instead, traders will use it to forecast the price direction on a given stock chart. They use historic data and volume to predict the price movement since they believe that history tends to repeat itself! Candlestick charts, support and resistance, technical indicators and trends are part of Technical Analysis.

Qualitative vs Quantitative Fundamental Analysis

QUALITATIVE

Qualitative information is related to subjective judgment and not quantitative information. For example, Management expertise, industry cycles, etc.

QUANTITATIVE

Quantitative information is related to numbers and things that can be measured such as the financial statements or income statement of a business.

Qualitative Factors

The business model

If the company is selling services, is it actually making money through that? Is is making the best possible income out of it? It is spending too much unnecessary things? All these are very important to evaluate a company' s structure.

Competitive advantages

Competitive advantages is looking at a company' s competitors by asking:

What is this company doing better than competitors? What will put them ahead of rivals? When a company achieves a competitive advantages, investors will also be rewarded.

Management

Some believe that the management of the company is the most important thing. Even a company with the best business model can go wrong if the management does not know what they are doing.

Qualitative Factors

The Financial Statement

Financial statement are also referred to as balance sheets. It represents the company' s assets, liabilities and equity. Assets represent what the company owns, or controls and liabilities show the total value of the financing that was used in order to acquire these assets. Liabilities represent dept that the company needs to pay off. These statements need to be submitted every end of the year or quarterly.

The Income Statement

The income statement represents the company' s performance in terms of revenue and expenses. The end result is to show how profitable the company was during this year and show where most expenses went to.

Sum Up

By focusing on a particular business, an investor can estimate the intrinsic value of a firm and find opportunities to buy at a discount.

The investment will pay off when the market catches up to the fundamentals.

In the contrary, an investor might understand that a company is being overbought and is real value should be traded much lower.

That will give the investor a sell opportunity.

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Always Trade Smart

GF Markets is created by traders with years in the industry. Our mission is to provide an accessible and intuitive way for traders of all levels to invest.

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