



# Short Term Investment Analysis - A case study on Indian Tobacco Company (ITC) Scrip

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## ABSTRACT

Generally, all securities are associated with risks. The actual return an investor receives from the securities is related to risks. So it becomes necessary for him to analyze the securities from the view point of their prices, returns and risks. This analysis is useful in understanding the fluctuation of prices of securities and the behavioral pattern of market before one decides to invest in securities. In general short term investors tend to earn more profit in a short period. One of the effective and simple tools used to have an idea for buying and selling of shares to its maximum yielding in 10 days is "Oscillators". The name itself expresses the oscillating character of price movement from low level to high level. The investor can get the merits of oscillators and be benefited in short term duration. The present study only micro level analysis.

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## Introduction

The word investment has many interpretations as it means different things to different persons. For a person who has lent money to another, it may be an investment for a return. Similarly, if a person purchases shares of a company for the purpose of price appreciation, it is also an investment for him. Investment is a commitment of funds for earning additional income. Security analysis calls for collection of vast information relating to company and market. The market for securities can be regarded as perfect when demand and supply forces determine the prices of securities. Besides the market price, the investors are interested in knowing the intrinsic value of shares. It is the value of net assets available per equity share of the company. It always revolves around the market price. When the intrinsic value is less than the market price, it is advisable to sell the shares. On the other hand, investors intend to buy securities when the intrinsic value of shares held is more than the market price. Thus, the market analysis and estimate of intrinsic value require collection of information from the appropriate sources.

## Importance of the study

There are a number of advantages in investing on a short term, the most important being that profit and losses can be observed almost immediately. Also short term investment does not lock up money for very long period and if investment is not doing well, we can withdraw and reinvest instantly.

Objectives of the study:

1. To analyze of price movement of ITC
2. To analysis of trend percentage for buying and selling
3. To measure the performance and profitability aspect

## Tools for Analysis

The primary data obtained have been analyzed with help of simple percentage method and oscillator (ROC). It measures the rate of change between the current price and the price before a number of days back. The formula for the ROC =  $\frac{\text{Today's Price} - \text{Price 10 Days Back}}{\text{Price 10 Days Back}} \times 100$ .

## Review of Literature

Sunil Damodar'o (1993) evaluated the 'Derivatives' especially the 'futures' as a tool for short-term risk control. He opined that derivatives have become an indispensable tool for finance managers whose prime objective is to manage or reduce the risk inherent in their portfolios.

K.Sivakumar. (1994) disclosed new parameters that will help investors identify the best company to invest in. He opined that Economic Value Added (EVA) is more powerful than other conventional tools for investment decision making like EPS and price earnings ratio. EVA looks at how capital raised by the company from all sources has been put to use. Higher the EVA, higher the returns to the shareholder. A company with a higher EVA is likely to show a higher increase in the market price of its shares.

Charls Schwab-" (2000) revealed very practical, authoritative and easy-to-follow tips and suggestions for good investment in the stock market. According to him growth is the heart of successful investment. He suggested that before investing, one should be clear about the goal... He opined that the biggest risk is not in investing but in doing nothing and watching inflation eating away the savings. A very useful suggestion of the author is not to draw upon the income from investment but to reinvest it. A low risk approach will yield low return. So the author urged the investor to be aggressive, subject to his personal limits.

Lukasz Prorokowski (2011) investigates equity appraisal techniques employed by nonprofessional investors from the Central European emerging stock market (CEESM) of Poland.

The paper examines investment decision-making processes in the context of the current financial crisis in a pioneering attempt to shed some light on crisis-induced changes in investment strategies. In addition, the study tests the usefulness and predictive abilities of analytical tools employed by non-professional investors when faced with unstable stock-market conditions.

Shalini Kalra Sahi, Nand Dhameja, Ashok Pratap Arora<sup>26</sup> (2012) made a study to illustrate the use of a post hoc predictive segmentation procedure to find out the variables that are the most important predictors of investor's preference for specific financial investment products.

#### Analysis and interpretation:

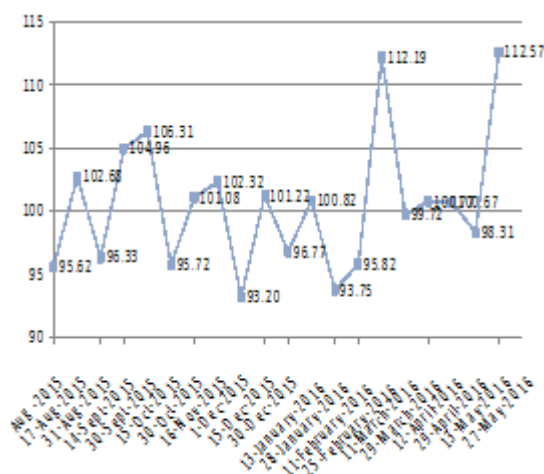
The following table gives the price details of the chosen scrip at the BSE and the calculated percentage variations.

**Table 1. Price History of ITC.**

Date	Open Price	High Price	Low Price	Close Price	Today's price	Price 10 Days Back	Rate of Change % Oscillator
3-Aug-15	326.75	333.2	325.1	331.3			
17-Aug-15	317.4	319.3	315.5	316.8	316.8	331.3	95.62
31-Aug-15	327	328.5	322.6	325.3	325.3	316.8	102.68
14-Sep-15	313.75	314.9	311.55	313.35	313.35	325.3	96.33
30-Sep-15	320.35	330	319.9	328.9	328.9	313.35	104.96
15-Oct-15	344.35	352.5	344	349.65	349.65	328.9	106.31
30-Oct-15	350.25	351	331.4	334.7	334.7	349.65	95.72
16-Nov-15	332	339.05	329.8	338.3	338.3	334.7	101.08
1-Dec-15	344	346.9	342.05	346.15	346.15	338.3	102.32
15-Dec-15	319.2	323.6	318.1	322.6	322.6	346.15	93.20
30-Dec-15	326	327.5	324.4	326.55	326.55	322.6	101.22
13-Jan-16	317	320.1	314.5	316	316	326.55	96.77
28-Jan-16	313.85	321.55	312	318.6	318.6	316	100.82
11-Feb-16	309.1	309.8	297.8	298.7	298.7	318.6	93.75
25-Feb-16	284	290.2	283.5	286.2	286.2	298.7	95.82
11-Mar-16	315.1	322	315.1	321.1	321.1	286.2	112.19
29-Mar-16	322	327.1	319.2	320.2	320.2	321.1	99.72
12-Apr-16	326.4	326.4	321.2	322.65	322.65	320.2	100.77
29-Apr-16	323.7	326.4	319.9	324.8	324.8	322.65	100.67
13-May-16	319.1	321.65	315.3	319.3	319.3	324.8	98.31
27-May-16	363	363.8	356.35	359.45	359.45	319.3	112.57

Source: www.bseindia.com

From the above table the minimum and maximum Rate of Change percentage is noted. Minimum Rate of change – 93.20% and Maximum Rate of Change – 112.57%. Now using this as a guideline an investor can glue his rate of change in the range of 93% to 112%. If the market is bullish then it is the right time for the investor to thrash the hot iron. A security analyst cannot predict of a stock's price with certainty. The existence of uncertainty does not mean that the analysis is useless. It should be approached in a systematic manner. The above data is now plotted in a graph and with the help of the graph an investor can pitch upon his profit according to his need.



From the above graph we can understand that the arch is fluctuating. The line below 100% indicates the market is in a bearish trend. When the curve reaches its lower extreme end it suggests the desirability of buying the scrip. On August 17<sup>th</sup> 2015 the rate of change is 95.62%. Assume at this position an investor buy 100 shares for the closing Price i.e., Rs. 316.8 and the same month on 31<sup>st</sup> the oscillator position for the closing price is 102.68% and the investor sells his 100 shares. 100 shares bought at Rs.316.8 per share = Rs.31,680. 100 shares sold at Rs.325.30 (closing price) = Rs.32,530. Profit to investor in 11 days Rs.850 i.e., 2.68% in 11 days. If the investor is heedful he can buy at the lowest price value on the above dates. Lower price on August 17<sup>th</sup> 2015 – Rs.315.50 per share and highest price on 31<sup>st</sup> August 2015 – Rs.328.50 per share. Profit to the investor in 11 days Rs.13 per share. For 100 shares Rs.1,300 and the profit percentage is 4.12. Here the rate of change % is 104.12. i.e., profit is 4.12%. The

following table gives a clear picture on different levels of profit. The investor is required to design the daily price level and the line positions below 100% and above 100% are to be noted for taking action i.e., buying and selling. Assume the number of shares bought by the investor 100.

**Table 2. Rate of change % and profit for various days – A comparison.**

Buy date	Sell date	Buy price low (In Rs.)	Sell price high (In Rs.)	Rate of change %	Profit ( In Rs)
17 <sup>th</sup> Aug.15	17 <sup>th</sup> Aug.15	Rs.315.5 * 100 shares = Rs.31,550	Rs.319.30 * 100 shares = Rs.31930	101.20	380
17 <sup>th</sup> Aug.15	30 <sup>th</sup> Oct.15	Rs.315.5 * 100 shares = Rs.31,550	Rs.351*100 shares = Rs.35,100	111.25	3550
15 <sup>th</sup> Dec.15	27 <sup>th</sup> May.15	Rs. 318.1 *100 shares = 31,810	Rs.363.80*100 shares = 36,380	114.36	4570

From the above Table we can realize that an investor can make profit in a day subject to the condition that the low price should triumph before the higher. On 17<sup>th</sup> Aug.15 if he had bought at Rs.315.5 per share and by selling the same on the day's high price Rs.319.30 per share he gained Rs.380 (profit-1.20%) in a day for 100 shares. It is pragmatic from the calculation that an investor who invested Rs.31,550(low price on 17<sup>th</sup> Aug.15) would get a profit of Rs.3,550(profit – 11.25) by the selling the whole share at the cost of Rs.351per share (High price - 30<sup>th</sup> Oct.15).An investor should be act wisely according to the price movement. An investor can get gain up to 14.36% in 7 months. By analyzing the earlier period we can outline an idea for fixing the Range for Oscillators. From the table 1 the Rate of Change percentage frequencies are noted.

**Table 3. Frequency of Rate of Change (%).**

Oscillator Range	93 -96	96.1 -99	99.1-102	102.1 -105	105.1 -108	108.1 -113
Frequency	5	3	6	3	1	2

From the above Table 3, shows that the Number of frequencies are more in the ranges of 93 -96 and 99.1-102. By rewriting the values the exact oscillator – range may be taken for short-term usage. It may be fixed from 93-100. From the table 1, on can see that 16<sup>th</sup> Nov.15, with the rate of change at 101.08 is a selling opportunity. If the investor wants to buy he can do so at later date after making intellectual calculations.

#### Conclusion

The best suited Rate of change percentage for short term investment (in 10 days) According to the current trend in ITC Scrip for buying signal is 93% and 100% for selling. Investors invest in fundamentally strong stocks because they perform the best in the long term. But some investors want the best stocks to invest in short term simply because they think that trading stocks quickly is the easiest way to earn money quickly. Short term stock investing is not for the faint of heart. The short or long term investment options would depend upon the expected pressing expenses in the near future and the period of investment. Based on this investor can select appropriate best investment plants to get best returns on investments.

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