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A study on equity share price behavior of hero Motocorp

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Abstract

The Indian capital market has witnessed a tremendous growth in the economy. There was an explosion of investor interest during the period of nineties and an Equity Gilt emerged in statutory legislations has also helped the capital market. India has received considerable capital inflows in recent years. This results the country to be poised for a big leap in the industrial and economic growth. The Economy of the country is mainly based on the development of the industrial and manufacturing sectors. In India most of the industries require huge amount of investments. Funds are raised mostly through the issue of shares. An investor is satisfied from the reasonable return from investment in shares. The investors should keenly watch the situations like market price, economy, company progress, returns, and the risk involved in a share before taking decision on a particular share. If there is better understanding of the stock market trend it will facilitate the allocation of financial sources to the most profitable investment opportunity. Due to several economic and non-economic factors there will be continuous fluctuation in the stock returns. The study is aimed at ascertaining the behaviour of share returns. This paper analyses the equity share fluctuations of Hero Motocorp. It also measures the strength of the trend and the money involved in investing in the stocks. Simple moving average model which would give the investor a sell signal or buy signal. This study will help the investors know the behaviour of share prices and thus can succeed.

Keywords: Capital Market, Stock Market, Shares, Market Price, Money Flow Index, Relative Strength Index

Introduction

Indian Capital Markets has grown tremendously in the recent years. An explosion of investor interest during the nineties and an Equity Gilt emerged in statutory legislations has helped the capital market. The tremendous growth in the manufacturing sector witnessed the economic development. Better understanding about the stock market profitable investment opportunity. This will enable the investors to make appropriate investment decisions. This paper analyses the equity share fluctuations of Hero Moto Corp. It also measures the strength of the trend and the money involved in investing in the stocks

Market Trend

A market trend is a perceived tendency of financial markets to move in a particular direction over time. These classifications of trends are secular for long time frames, primary for medium time frames, and secondary for short time frames. Traders attempt to identify market trends using technical analysis.

Objectives of the Study

- To analyze the share price behavior Hero MotoCorp.
- To predict the day to day fluctuations in the stock market using Technical Analysis.

Scope of the Study

The study on the fluctuations in equity market helps in knowing the equity market behavior. It helps to know about the deviations in the returns of the stocks. It also measures the strength of the trend and the money involved in investing in the stocks.

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Review of Literature

Grewal S.S and Navjot Grewal (1984) revealed some basic investment rules and rules for selling shares. Nabhi Kumar Jain (1992) [1] specified certain tips for buying shares for holding and also for selling shares. Bhalla V.K." (1997) [2] reviewed the various factors influencing the equity price and price earnings ratio.

Research Methodology

Research Design

This paper analyses the equity share price behavior of Hero MotoCorp. It also measures the strength of the trend and the money involved in investing in the stocks.

Data and Sources of Data

Secondary data like printed documents and internet has been used for the data collection. The daily closing price of the company included in National Stock Exchange are taken from the NSE website and their price movements are computed and studied.

Time Period Covered

The daily share prices of the company was taken for a period of nearly six months from 1st July 2016 to 31st December 2016.

Method of Sampling

Judgmental sampling method is used for the study. It is a non-probability sampling technique where the researcher selects units to be sampled based on their knowledge and professional judgment.

Tools Used

- Money Flow Index (Mfi)
- Relative Strength Index (Rsi)

Money Flow Index

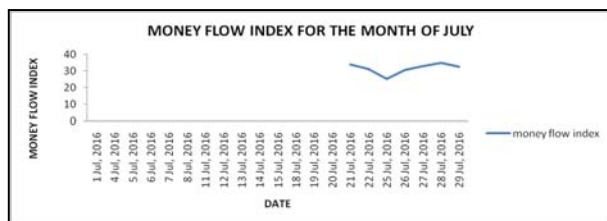
MFI is a more rigid indicator in terms of its volume – weightage, and is therefore a good measure of the strength of money flowing in and out of a security. It compares the "Positive money flow" to create an indicator that can be compared to price in order to identify the strength or weakness of a trend. The MFI is measured on a 0 – 100 scale and is often calculated using a 14 day period.

$$\text{Typical Price} = ((\text{Day High} + \text{Day Low} + \text{Day close})/3)$$

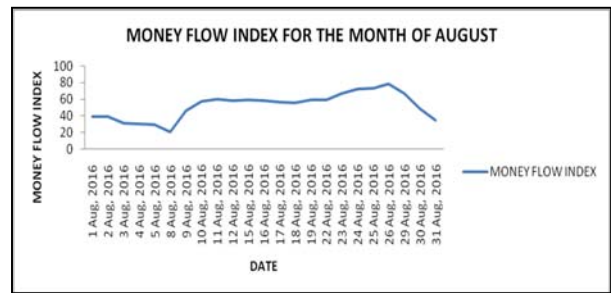
$$\text{Money Flow} = (\text{Typical price}) \times (\text{volume})$$

$$\text{Money Ratio} = (\text{Positive Money Flow} / \text{Negative Money Flow})$$

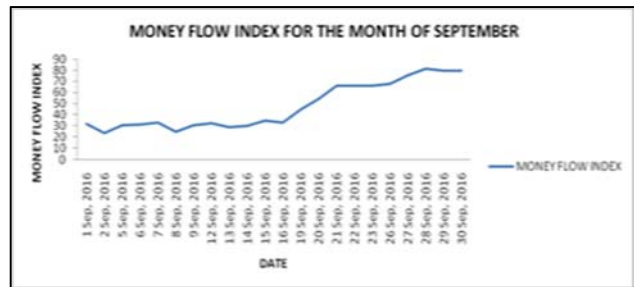
$$\text{Money Flow Index} = 100 - (100) - (100 / 1 + \text{Money Ratio})$$



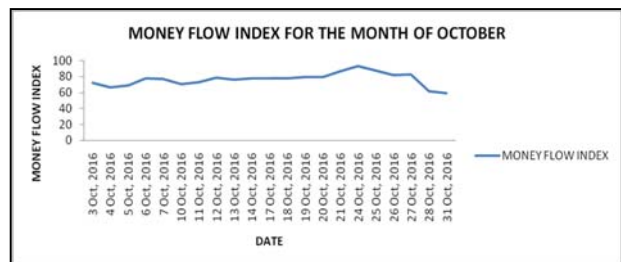
The above graph shows that there will be no values found in the first 14 day period and from the 15th day of the month indicates the Money Flow Index. It indicates that there is an upward and downward movement of trend between the points 25 to 35. There will be more fluctuations in the future.



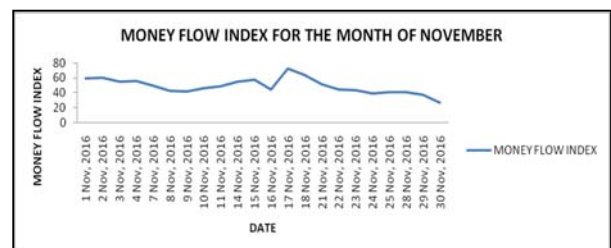
The MFI touches the extents to 80 points and indicates that there is a bullish trend. In the middle of the month there is a stable move in the trend at 60 points. At the end it again moves down to the bearish trend below the center line to 30 points.



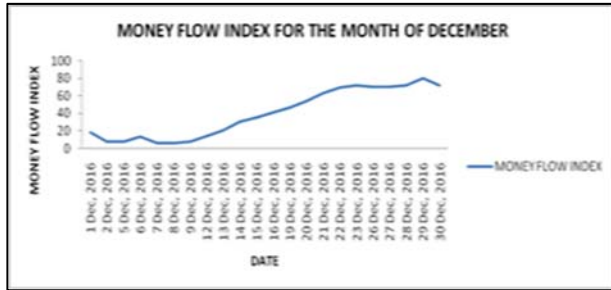
The Money Flow Index indicates that the trend starts increasing till the maximum point 80. It also shows that there will be potential reversals with overbought. The trend may remain constant and may fall in future.



The Money Flow Index indicates that there is an increasing trend in the beginning and remains constant in the middle at point 80. The trend is overbought and may further change in the future period.



The Money Flow Index indicates that there is a change in the trend over period of time. The trend moves upward to point 70 and comes back to bearish trend at the end of the month as it moves to point 30.



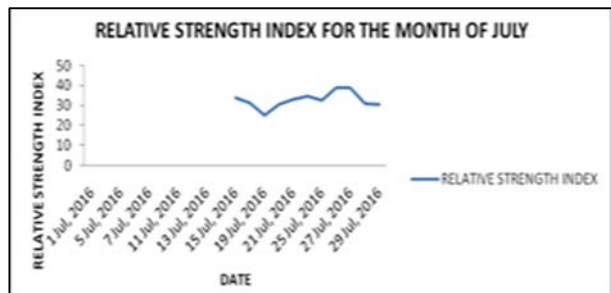
The Money Flow Index indicates that there is a potential reversals with oversold level at the beginning in the point 10. It increases constantly during the period and touches the extreme at point 80. It specifies that the trend moves from bearish trend and shows bullish signal.

Relative Strength Index

The Relative strength Index (RSI) is extremely useful and popular method. The RSI compares the magnitude of a stock's recent gains to the magnitude of its returns and recent losses into a number that ranges from 0 to 100. It takes a single parameter, the number of time periods to be used in the calculation.

Average gain = Total of gains during the past 14 periods/14
Average Loss = Total of Losses during the past 14 periods /14

$RS = \text{Average Gain} / \text{Average Loss}$
 $RSI = 100 - (100 / (1 + RS))$



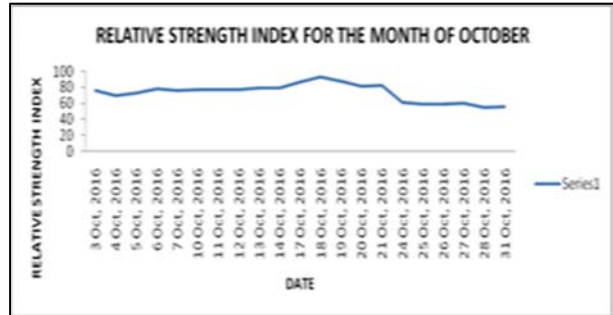
The Relative Strength Index of the above graph shows that there is no value for the first 14 period. At the 15th July of the month we can see that the trend moves towards bearish at 25 and increases at the end of the month with 40.



The Relative Strength Index indicates that the trend moves upward at 60 and remain constant and raises again to bullish trend to 80, but downtrend to 30 again at the end. It reflects that there is sale of shares at 80.



The Relative Strength Index indicates that the trend starts increasing towards bullish trend at point 30 and continues to its extent till the point 80. At this point there is sale of shares at high price.



The trend of Relative Strength Index remains constant at point 80 and further increases to oversold and comes down trend to bearish at point 60 at the end of the month.



The Relative Trend Index increases at point 60 and reduces and again to till 70 and above, but it slopes downward towards bearish and comes to overbought at below point 10.



The trend of Relative Strength Index indicates the trend that it lies at overbought stage at below point 10 and reflects bullish trend at the point 80.

Findings and Inferences

From the analysis we can say that there is a fluctuation in the beginning of the year with change in continuous price and it continues till the middle of the last six months. It further moves to overbought and results in bullish trend, but later goes to the stage of oversold at bearish trend.

Suggestions

The present study on Hero MotoCorp scripts would help the investors to take investment decision. This helps the investors to buy and sell of the shares. The investors can invest in those companies which are recovering out of overbought or oversold condition since there might be a definite trend reversal in the stocks. It is also advised for the investors to hold the stock which keep fluctuating unless until the stock follows definite bearish or bullish trend. The investor can also make investment not only through a particular indicator but by confirming the signal with several indicators for better returns.

Conclusion

Most of the Indian industries require huge investments. Funds required for these industries are raised mostly through the issue of shares. An investor is satisfied from the reasonable return from investment in shares. An investor who selects the right shares will be able to succeed in his investment. The investors should keenly watch the situations like market price, economic conditions, progress of the company, risk and returns involved in a particular share before taking decision. This study will help the investors to know the behavior of share prices and thus can succeed.

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