
Fundamental Analysis VS Technical analysis: The Comparison of Two Analysis in Malaysia Stock Market

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ABSTRACT

This study is conducted to analyse the credibility of the fundamental analysis and technical analysis on predicting the stock return and compare both models to determine which model is more credible to be used as a good trading strategy by investors. The study is based on 80 companies selected from Bursa Malaysia in the food manufacturing industry in the main market from the year of 2012 to 2016. The stock return is used to measure whether both analyses are able to forecast and generate the positive return. Net profit margin, price earnings ratio and total asset turnover are used as fundamental indicators while moving average convergence divergence is used as technical analysis indicators. In order to test the significance of both model on stock return, panel regression models are applied in this study. The result shows that although both model can be used to generate positive return, technical analysis did not outperform fundamental analysis in the food manufacturing industry in Bursa Malaysia.

Keywords: Fundamental analysis, Technical analysis, Stock return, Trading strategy, Investors, Bursa Malaysia.

INTRODUCTION

A stock market is a virtual form intermediation where buyers and sellers can trade their assets such as shares and company securities (Reilly & Keith, 2012). Stock market has play a crucial role which determine the price of underlying assets at any particular time by matching all the available information. When there are buyers and sellers who are willing to participate in trade in an asset, stock market works. High demand of an asset will cause the value of the asset to rise. The first stock market was initially developed in London in 1606 which means the stock market has roughly over 400 year of histories. Today, due to the advancement of technology, the stock markets have risen to become extensive exchanges of capital and funding, trading in trillions 24/7 across the world.

Stock markets have transformed globally over the past few centuries. Traders can trade their asset all over the world. There are around 60 exchange stock markets in the world. According to Worlds Federal of Exchange monthly report of 2015, there are 16 major exchange stock market which has market capitalization of over US \$ 1 trillion each which are New York Stock Exchange, NASDAQ, London Stock Exchange Group and etc. According to report of Capital group in October 2016, the performance of US stock has weakened due to the rise of interest rate. The standard and poor's 500 composite index slipped 2%; Dow Jones Industrial Average declined by 1 %; NASDAQ composite index decreased by 2%. Moving to Europe market, although European stocks has gained 0.3% overall, it had been offset due to the departure of United Kingdom from European Union. For Asian-Pacific, Japanese Yen depreciated 4% against the U.S dollar which caused the Japanese equities rose. Besides, weakening yen caused the shares of Japanese exports to rise. Financial sectors had the best performances among all sectors which gain 9%. However, emerging markets stocks have a decreasing trend and pulled back to an increasing trend. This scenario is due to the increase of US interest rate and outcome of the US presidential election.

As the stock markets change dramatically, securities analysis is one of the important issue for investors to determine the market trend and to reduce gambling aspects of investing (Hooke, 2010).