FACTORS THAT AFFECT TRADING

Capademy Tutorial Series

Factors that affect trading.

The price movement in the equity market can be very volatile, and this movement in price is not random. Have you ever thought about what drives the stock market? There are not one or two factors that ultimately governs the price movement but many factors that can affect trading. However, there are some essential factors that can have a strong influence on the market and can move the market up or down. All of these factors fall in three broad categories which are Fundamental factors, Technical factors, and Market sentiments.

1. **Fundamental factors-** the market is a very efficient place, and the stock price is determined primarily by fundamental factors. The two most basic fundamental factors are earnings bases such as earning per share or EPS and a valuation multiple, such as the price-to-earnings ratio

As we know that a shareholder has a claim on the profits made by the company, and earnings per share is the return a shareholder gets on his investments.

P/E ratio is a method of valuing or to determine the value of a company's share price with respect to other companies in the same industry.

Some other factors are cash flow per share, company's earnings power, growth rates etc

1. **Technical factors-** technical factors are combinations of external conditions that can affect the earnings and growth of a company. For example, a company will automatically perform well when the economic growth of a country is high.

2. **Inflation-** inflation is defined as the rate of increase in prices of goods and services. It is set by the Central bank of the country according to their monetary policies. A normal inflation rate will help companies to grow at a faster pace.

3. **Economic growth or GDP of a nation-** Economic growth or GDP is one of the main factors that can affect the market. GDP indirectly contributes to the earnings growth of a company. More and more people tend to invest in a growing economy, which increases the demand for that stock, and due to increased demand, the prices rise to fast.

4. **Political condition, government policy, and news-** it is hard to quantify the impact of these factors on stock price, but they do have a significant impact on stock prices. An unexpected development in an industry or the global economy can boot the demand while unstable geopolitical conditions can decrease the demand of a stock hence causing a rise and fall in the prices.

5. **Market sentiment-** market sentiment refer to the psychology of buyer and seller individually as well as collectively of all market participants. Market sentiment is generally subjective and varies from person to person. Market sentiments deal with behavioural finance. It is based on the assumption that the market is not efficient and this inefficiency can be explained by social science and psychology of market participants.

Conclusion

Everyone is different, and so it their approach to the stock market. Many short-term investors/traders consider technical factors to be more important than fundamental factors. While long term investors consider fundament factors to be more important. None of the factors are more or less important; it depends on the investor's time frame and risk appetite.

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