



CAPITAL  
STREET|FX

# FUNDAMENTAL ANALYSIS

Capademy Tutorial Series



## What is Fundamental Analysis?

Fundamental Analysis is the assessment of political, social and economic data of a financial asset. We evaluate only that data which affect the supply and demand of a security. This type of analysis is not used by all investors. The aim of fundamental analysis is to reach at a number that a trader can compare with a stock's current price and find out whether the stock is undervalued or overvalued. This method is done from a macro to micro perspective to find stocks that are not correctly valued by the markets.

This method of stock analysis uses public data to estimate the value of a security. For instance- a trader can do fundamental analysis of a share by looking at economic factors such as future growth, earnings, revenue and other data to find out a company's underlying value and potential for future growth.

The factors that we used to do fundamental analysis are known as fundamentals. By analyzing these factors, investors can reach to a conclusion regarding the state of an economy and take trading decisions.

For instance-: when trading foreign currencies, investors who use fundamental analysis will try to gauge how well an economy is doing in order to bet whether the currency will rise or fall. Fundamental traders believe that if a nation's economy is thriving, foreign investors will want to invest in that country and will require domestic currency to do so.

Economic Calendar is an important tool for investors who use fundamental analysis. The Economic calendar is a calendar that describes a list of scheduled events that will occur during the year which may affect the markets or prices of financial instruments.

Investors and traders use this information to plan trades and portfolio relocations. An Economic calendar is available on every financial and economic website easily.

We are here describing some of the main events on the economic calendar:-

### 1. GDP

The abbreviation GDP stands for "Gross Domestic Product". It is the value of the all goods and services produced in a particular country during a specific period (either monthly, quarterly or yearly). It is a method of evaluating an economy's performance over time. In simple words we can say, GDP measures growth.

### 2. Non-farm payrolls

It is a U.S. employment report released usually on the first Friday of every month. It affects the movement of the greenback on that day. Payrolls are always relevant to the previous month. It is published by the U.S. Department of Labour.

### 3. Banks interest rate decision

Central banks interest rate decision is an important economic event. Major central banks such as the Federal Reserve, the Bank of Canada and the Bank of Japan have scheduled meetings. Interest rates are important in assessing the perceived value of a specific currency. Sometimes, central banks will announce an interest rate increase or decrease which will a significant impact on the markets.

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## **Comparison of Fundamental Analysis and Technical Analysis**

1. Technical Analysis considers only price action and past price data while the fundamental analysis uses the firm's parameters like earnings per share and price to earnings ratio.
2. Technical Analysis do not rely on company data and fundamentals like in the fundamental analysis.
3. Concepts used in Technical Analysis are Price Data and Dow Theory, while Fundamental analysis uses concepts of Return on Assets and Return on Equity.

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