

Share Value and Price Analysis

How do you determine the price of a stock share? There are two basic approaches, Fundamental Analysis and Technical Analysis.

[Share Value Price Trend](#) applies components of both Fundamental Analysis and Technical Analysis to support investment decisions.

Fundamental Analysis determines intrinsic share prices by projecting future stock earnings and then applying an acceptable return on investment to calculate the stock value and share price. This approach is used by most traditional investment analysts and is the basis of their stock performance recommendations. In a stable economic and business environment applying Fundamental Analysis should provide a solid pricing mechanism however all businesses operate in dynamic environments and future earnings are never guaranteed. This results in varying estimates of earnings. Dynamic business environments result in less reliable earnings estimates and a greater possible range of future earnings. The rate of return component of Fundamental Analysis is also variable and is influenced by the the return from alternative investments and the perceived risk of the investment. As risk increases the required rate of return increases to compensate for the risk.

Fundamental Analysis essentially tells us what price a share should be based on the variables applied. This can be considered as its intrinsic or Fair Value based on future earnings and return on investment. However the actual price of a share is determined by the market and the market is driven by human emotion. So what we really want to know is **what price a share will be on the stock market within a future time window**. Analyzing past share prices can provide some insight into future movements, this is the realm of Technical Analysis

Technical Analysis or Charting applies statistical techniques to historical share prices and volumes to identify likely future share price movements. It does not consider the fundamentals of the stock, the business, or economic environment as the influence of these factors is deemed to be already reflected in the share price. Because Technical Analysis is based on actual past share price data (which was influenced by human emotion) it incorporates a component of human emotion in its calculations. This can provide valuable indicators and insight into future share price movements that can not be identified using Fundamental Analysis.

At any point in time the actual stock share market price consist of two components. The Fair Value price (fundamental) and a variance from the Fair Value due to dynamic environments and human emotion. The more volatile the environment and emotion the greater the variance. This results in cvcltic boom (bull) and bust (bear) markets. Achievind the best possible return for our investment