


## Chapter 5

# Mind of a Portfolio Investor: Which Strategies Should I Use as a Basis for My Investment Decisions

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### ABSTRACT

*It is smart for investors to plan for a drop that may be accompanied by a recession in the late stages of a bull market. The authors examine a variety of passive and active strategies, as well as their success in different crises. However, while choosing the best of strategies in the worst of circumstances, investors must be cautious in defining 'best.' It's critical to comprehend not only the long-term performance but also the whole cost of putting various preventive measures in place. The authors analyse popular strategies like technical analysis, fundamental analysis, relying on financial news, seeking professional advice, tips from trade experts, and self-intuition while making portfolios. Our findings indicate that every investment is unique. Some defensive methods will be more effective than others in each case. As a result, diversification across several viable strategies may be the wisest course of action.*

### INTRODUCTION AND LITERATURE REVIEW

In this research study we analyse popular strategies that can be employed by portfolio investors like technical analysis, fundamental analysis, relying on financial news, seeking professional advice, tips from trade experts and self-intuition while making portfolio investment decisions.

1. Long-term market fluctuations can be predicted using fundamental analysis. The use of stock valuation techniques is deemed fit for investors looking to engage in long-term investments as it plays a vital role in determining the fair price at which stocks should be bought or sold. In addition, such analysis enables portfolio managers to identify and capitalize on investment opportunities that have significant potential for growth over extended periods of time. The application of these methods

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demands an understanding of key factors influencing market trends, allowing astute investors to make informed decisions regarding their holdings while mitigating risk exposure. By adopting this approach, traders can gain an edge in navigating volatile markets and ultimately maximize returns on their invested capital through careful planning and execution strategies based upon robust research insights into various industries' fundamentals.

Investors resort to conducting in-depth fundamental research to carefully evaluate the intrinsic value of a particular stock. This is done with the aim of assessing whether it's trading at its true worth, which may be vastly different from what it appears on paper. The existing market price cannot solely determine the underlying value of a stock, as there could potentially exist undervalued stocks that are being overlooked by investors and vice versa for overvalued ones. Fundamental analysis serves as an investment strategy frequently utilized by renowned gurus like Warren Buffett and Peter Lynch to identify promising stocks poised for growth while minimizing risk exposure. It involves thoroughly analyzing key financial metrics such as revenue figures, earnings reports, cash flow statements among others before making informed decisions about purchasing shares in specific companies that have demonstrated strong potential returns. It aids the investor in better portfolio investment decision making. It looks at the fair value of a stock. Investors are also able to evaluate the company's health and effectiveness of any firm by looking at critical indicators and macroeconomic variables, making predictions about future fluctuations in price, and deciding if a stock is fair or overpriced. It is a tool for evaluating a company's strengths and ability to outperform its competitors.

A thorough comprehension of a company's business model and management techniques is integral to informed decision-making when it comes to investment selection. To gain this understanding, fundamental stock analysis serves as an important tool in the investor's arsenal. By digging deeper into a company's financial statements and market trends, investors can ascertain not only its current performance but also potential future growth prospects that will ultimately affect their returns on investments. Therefore, having a comprehensive knowledge about these key aspects provides better insights into the workings of any organization which helps investors make sound judgments with confidence.

Through their research, (Asquith and Meulbroek 1996) indicate that short sellers as a group are successful in identifying assets that underperform the market through fundamental analysis. Several researchers illustrate that fundamental-to-market-value ratios are a strategic approach of forecasting future stock returns. Accounting data-based estimates of "intrinsic" values are as compared to market prices which can be visible through these ratios. According to (Lakonishok et al 1994), "naïve" investors are overly enthusiastic about the returns of investing in under-priced stocks. The method may include computing simple financial ratios (Fama and French 1995, Lakonishok et al. 1994), or slightly more complex techniques of valuation (Ohlson 1995), as well as everything between (Frankel and Lee 1998, Dechow et al. 1999). According to the research presented by Piotroski (2000), it is possible to differentiate profitable businesses from ineffective ones by determining the core value of an organisation as well as any systemic defects in the expectations of the market. Using the information obtained from the analysis of financial statements, he formulates an investment plan for businesses with a high BM or value. Recent research looked at the effectiveness of a fundamental analysis method that is based on financial statements for screening companies in Vietnam (Ho T et al 2022).

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