SOME CONSIDERATIONS REGARDING THE SHARE PRICE FLUCTUATION, RISK MANAGEMENT AND INVESTMENT STRATEGIES

Ţîrlea Mariana Rodica
"Dimitrie Cantemir" Christian University Bucharest Faculty of Economic Sciences of Cluj-Napoca 56. Teodor Mihaly Street Cluj Napoca, 400591 E-mail: rodicatirlea@yahoo.com Phone number:.0744677170

The share prices are in a continuous evolution, as a result of perception change regarding the performances of the issuing companies and according to the estimate of the economic conditions evolution in general.
Investors are aware that they can increase their profits if they can accurately forsee the share price fluctuations. In order to do this, two types of analysis can be mainly used. These are technical analysis and fundamental analysis.

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1.Technical analysis
The technical analysis is frequently used to forsee the share price fluctuations. In this case, graphics can help to determine the main trends and models. Therefore, this analyse type is frequently called a graphic analysis, and those who use it are called charters.
The technical analysis of the share price is based upon the analysis of the historical data. The trends and correlations are highlighted as they can be used to forsee the future fluctuations by observing the present ones It is used only for short term analysis, it is based on subjective rules established by historians, and it does not consider future related aspects.

2.The fundamental analysis
The goal of this technique is to identify the under-evaluated shares, as it is considered that sooner or later the market will recognize their real value. The ones who invested in these shares when they were under-evaluated, would meet a portfolio value growth (if they keep those bonds) or an immediate profit by selling them. A complementary objective is to avoid the over-evaluated shares.
The fundamental analisys of the share price considers those elements that affect both the level and the sustainability of the future incomes, such as:

the financial state of the company;
the market sector of the company;
the large market share of the company within the sector;
the position of the main competition;
the impact of the new technologies.

That is why, the fundamental analysis of the share price supposes a rigurous financial analysis of the company's performances, combined with a subjective analysis of the strongnesses and weaknesses. Still, as in the case of anticipating the exchange rates, the results of the fundamental analysis have proven to be just an indicator regarding the right direction. There are two hypotheses that are trying to explain why thorough the technical and the fundamental analysis the price fluctuations can not be accurately anticipated. And they are as follows:
- the hypothesis of the share price random evolution;
- the efficient market hypothesis.

2.1.The hypothesis of the share price random evolution

Since the beginning of the 50's there have been critics about the idea that the share price fluctuations can be anticipated. Professor M.G. Kendall (1953) explains the share price fluctuations using the hypothesis of the share price random evolution. The later analysis support this hypothesis.

The hypothesis is based on the principle that the share price has an evolution which is not entirely random, but, in the same time, unpredictable. If the evolutions/fluctuations of the share price would be entirely random, then the share price in consecutive days would be uncorrelated with the price from the previous days.

The graphic of the price evolution in time is the continuation of the one from the previous day - higher, lower or the same. This is true even if the price is changing rapidly. Besides, the changes are following the trend for a short period of time, so the repeated, alternative fluctuations are rare. This suggests the impression that the price is following an unpredictable "track".

2.2.The efficient market hypothesis

A theoretical frame for the hypothesis of the share price random evolution is the efficient market hypothesis. This supposes that a regulated share market is efficient if the price contains all the available information at a given moment. The market participants only need to use all the available information in the decisional process regarding bond sale or purchase.

If the relevant information does not reflect in share price, for some market participants opportunities are created to buy shares at a low price or to sell at a high price. Their shares will establish price changes one way or the other until, finally, the price will reflect me information.

The efficient market hypothesis lays at the basis of the price efficient market hypothesis as follows: a new information regarding a certain share-the very moment it is known-generates an unpredictable movement, both for the price of that particular share and the price of other market shares.

The sale and purchase opportunities offered by other shares can be capitalized only if the investors accept to change the structure of their portfolio, because selling a share implies buying of another one and vice versa. Therefore, the information concerning certain shares can affect the demand and price for other shares.

The term "efficient" does not refer to operational efficiency in the traditional way, but it refers to the way the information is used. Many markets, are inefficient operationally speaking, still they can be framed within the definition of the efficient market. Depending on the degree of information reflection on the share price, there are three approaches to this hypothesis:

- the "weak" form - the prices reflect all information from the past ("weak information");
- the "medium" form - the prices reflect all public information ("medium" information);

considered an element that diminishes the costs of investments. Obviously, after the share payment, the share price returns to its initial value.

Close to the share payment date, the share is quoted either as a cum-share or as an ex-share. This happens because the share is payable to the share owner from the day he is declared one, even if the share is sold to another investor before the actual share payment.

A last situation is presented that practically often imposes evaluation, meaning evaluation of the subscription of share issue rights. The subscription of share issue rights is a way for a company to increase its capital. The rights of subscription for the new shares can be sold if the share holder does not want to use them. When evaluating these subscription rights, firstly the share value is established after exercising the subscription rights , and then one can establish the price of a new share by exercising the subscription rights. Let's take an example. Suppose the subscription relation is 3:1, meaning three subscription rights give the possibility of buying a new issued share, and the subscription price for a new share is 8.000 m.u. The current price of shares is 10.000 m.u./share.

The company value after the title issue is supposed to be the former one after adding the new capital value. Thus, a share value after the title issue, will be 9.500 m.u.
This is the value of a share after the subscription of share issue rights, whose subscription price is 8.000 m.u. This is why the subscription option value is 9.500-8.000=1.500 m.u., and it reflects the value decrease for the old shareholders, if they do not exercise their rights. It is worth mentioning that this is just a way of evaluating the subscription rights value. In many cases, when issuing subscription rights, the goal is to improve the long term benefits of the company and thus the subscription rights value is calculated according to the new potential earnings. Often this can cause additional growth of the subscription right value, even if the relying earnings are speculative.

Conclusions:
True even if the price is changing rapidly. Besides, the changes are following the trend for a short period of time, so the repeated, alternative fluctuations are rare. This suggests the impression that the price is following an unpredictable "track".

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