



ANALYZING HIGH TRADING VOLUME CREATE ACCUMULATION AND DISTRIBUTION ZONE OF THE STOCK PRICE TO MAKE TRADING PROFIT

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Abstract

Volume indicator offers a new dynamic interpretation of crowd psychology. Volume not only measures the enthusiasm of buyers and sellers but is a totally independent variable from price. By analyzing high volume in stock or sudden spike volume in stock gives better accumulation (buying) and distribution (selling) zone for the traders to earn profit.

Keywords: High Trading Volume, Accumulation Zone, Distribution Zone.

Introduction

Volume is the true indicator. Volume is the fuel that drives the market, both higher and lower and if there is no volume, then the market is unlikely to move far. Volume signifies that there are large numbers of market participants involved in the price action, including financial institutions, which bring the highest turnover to the market. If the financial institutions are trading, it means they are interested in a price at certain level and they literally push the price up or down. Institutions generally accumulate or distribute shares over a period of weeks and months, so large increase in volume are the first clue that the deep pocket big money crowd is beginning to jump onboard.

Review of Literature

“Impact of Foreign Institutional Investments on Stock Market Volatility in India”- GauravDadhich, VarunChotia, OmvirChaudhry at Indian Journal of Finance, October 2015, Volume 9, Issue 10, ISSN 0973-8711the studies says that FII investment one of the major reason for volatility of the Indian stock market so it necessary to understand the investing behavior of foreign investor as their herding nature is capable of sucking capital out of the markets unexpectedly and pumping enormous amounts, causing the share markets to go wild. Statistics on trading patterns of FIIs and gross turnover suggest that FIIs are becoming extremely influential in Indian stock market.

“Stock Market and Factors affecting trading volume”-Sapna and Dr.VinitDani at International Journal of Advance Research in Computer Science and Management Studies, March 2014, Volume 2, Issue 3, ISSN: 2321-7782 (Online) in this research paper researcher studies relationship between the stock price and trading volume of BSE index. In this study researcher found that price and volume cannot explain each other. This is because each variable is working in many other market forces.

“Foreign Portfolio Investment and Stock Market Volatility in India”- Suddhasanta De, TanupaChakraborty at Indian Journal of Finance, January 2015, Volume 9, Issue 1, ISSN 0973-8711in this research paper researcher studies that because of FIIs program trading, trading in larger volume, and faster incorporation of information into prices induces greater volatility. But their monitoring and analytical skill it reflects on the stock prices that is better for the price discovery, may lead to investor confidence and calm down the volatility and as a result FIIs holding may not have significant effect on return volatility in the Indian stock market.

Objective

1. To find out high volume trading day is accumulation zone or distribution zone.
2. To find out entry point by using High volume trading day accumulation zone or distribution zone.

Hypothesis

- H0:High trading volume creates accumulation zone.
H1:High trading volume create distribution zone.

Practical Significance

- Trader use high volume day as buying or selling zone.
- Trader also got to know where the entry point of that high volume stock is.

Limitations

1. Only High Volume parameter is used for research.
2. This study is based on secondary data only and not on primary data.
3. The study is constrained to limited stock only.



Research Methodology

The data collected for the study is secondary in nature. The objective of the study is to find out the how high volume spike help to find out accumulation and distribution zone and by using that zone trader come to know entry and exit price of that stock.

The study period is December 2014 to December 2015. For Technical Analysis the daily share price movements of the selected companies are taken.

Data Analysis & Interpretation



Above chart is the daily price movement candle chart of the APLAPOLLO. If you see that APLAPOLLO Company stock chart in the month of March 2015 there is high volume created and that day price range is marked by light blue zone. In the month of March and July 2015 it tests low and high of that blue zone respectively and then it bounces back upside of that zone. In the month of August 2015 trader gets entry point because now that zone becomes an accumulation zone, and buying price is around Rs.380/- and then after stock price goes to Rs.603/- in the month of December 2015 so trader gets profit around Rs.223/- (58.68%) within 5 months and risk part is if stock price goes below Rs.350/- (7.89%) so trader should exit from that stock and take a loss.

The below chart is the daily price movement candle chart of the ZENSARTECH. If you see that ZENSARTECH Company stock chart in the month of July 2015 there is high volume created and that day price range is marked by light blue zone. In the month of August, September and October 2015 it tests high of that blue zone and then it bounces back upside of that zone. In the month of October 2015 trader gets entry point because now that zone becomes an accumulation zone, and buying price is around Rs.810/- and then after stock price goes to Rs.1100/- in the month of November 2015 so trader gets profit around Rs.290/- (35.80%) within 2 months and risk part is if stock price goes below Rs.660/- (18.51%) so trader should exit from that stock and take a loss.



The below chart is the daily price movement candle chart of the ABGSHIP. If you see that ABGSHIP Company chart in the month of February 2015 there is high volume created and that day price range is mark by light blue zone. In the month of March and April 2015 it test high of that blue zone and then it broke that zone that is low rate of the high volume day. In the month of May 2015 trader get entry point because now that zone becomes distribution zone, and selling price around Rs.190/- and then after stock price goes to Rs.65/- in the month of December 2015 so trader get profit around Rs.125/- (65.78%) within 8 months and risk part is if stock price goes above Rs.240/- (26.31%) so trader should exit from that stock and take a loss.





Above chart is the daily price movement candle chart of the BHARATFORGE. If you see that BHARATFORGE Company chart in the month of May 2015 there is high volume created and that day price range is marked by light blue zone. In the month of August 2015 it tests twice high of that blue zone and then it breaks that zone, that is a low rate of the high volume day. In the month of September 2015, a trader gets an entry point because now that zone becomes a distribution zone, and the selling price is around Rs.1150/- and then after the stock price goes to Rs.803/- in the month of December 2015, so the trader gets a profit around Rs.347/- (30.17%) within 4 months and the risk part is if the stock price goes above Rs.1270/- (10.43%) so the trader should exit from that stock and take a loss.

Conclusion

Volume is important because it shows the level of interest in a stock. Volume spikes are often the result of news-driven events. This volume spike will often lead to a sharp reversal. Trading counter to volume spikes can be very profitable, but it requires enormous skill and mastery of volume analysis.

The present studies investigated that by using volume spike traders come to know the accumulation or distribution zone and after that finding zone a trader can take the entry according to the zone and earn a good amount of profit with calculated risk.

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