

The Pulse

Market Growth, Risks and Outlook

Ashwin 2081

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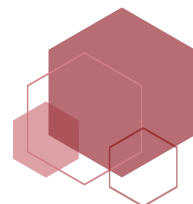
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हिमालयन क्यापिटल लि.



Himalayan Capital





A Subsidiary of Himalayan Bank Limited



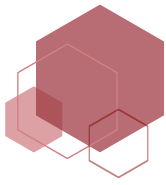
Global Markets Overview

€	1.11 \$ (0.63%)	S&P 500	5,762.48 (2.02%)
£	1.34 \$ (1.82%)	BSE SENSEX	84,299.78 (2.35%)
₹	83.8* (-0.13%)	NIKKEI 225	37,719.55 (-2.40%)
¥	144.28* (-1.31%)	FTSE 100	8,320.76 (-0.70%)
A\$	0.69 \$ (2.27%)	DAX	19,324.93 (2.21%)
C\$	0.74\$ (-0.27%)	CAC 40	7,635.75 (-0.07%)
		HANG SENG	21,133.68 (17.48%)
		SSE COMPOSITE	3,336.50 (17.39%)

*Values Per 1 \$

	Gold(\$) Per Oz. 2,635.23 (5.27%)		Bitcoin(\$) 63,329.50 (7.60%)
	Brent Crude(\$) Per Barrell 71.88 (-8.80%)		Ethereum(\$) 2,603.06 (4.15%)

#All Changes are in MoM basis.



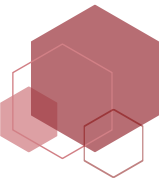
Currency Market Trends

The currency data indicates varied performance across different currencies. The Euro and British Pound have appreciated modestly against the US dollar by 0.63% and 1.82%, respectively, signaling potential strength in European economies. Meanwhile, the Indian Rupee and Japanese Yen have slightly depreciated, with the Yen experiencing a more noticeable decline of 1.31%. This could reflect economic policies or international market pressures. The Australian Dollar has shown significant growth at 2.27%, while the Canadian Dollar remains stable, showing minimal movement.

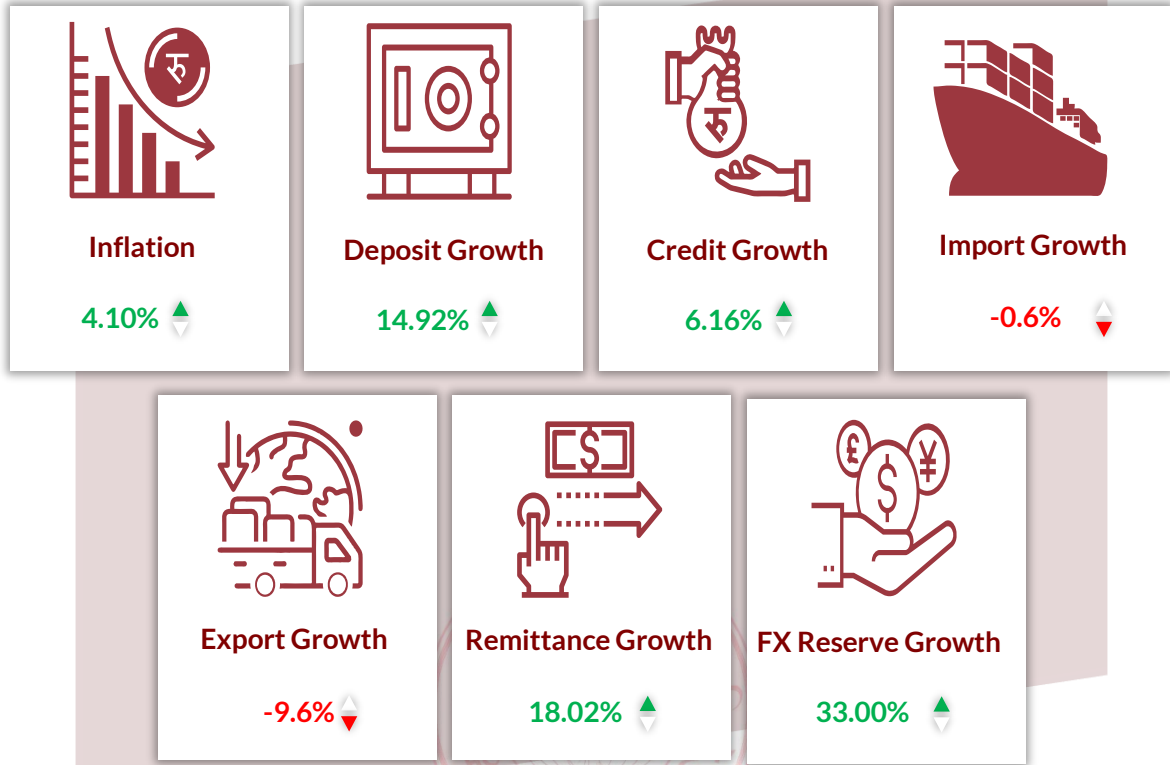
In the stock market indices, the S&P 500 and BSE SENSEX are showing solid growth at 2.02% and 2.35%, respectively, reflecting positive momentum in the US and Indian stock markets. European indices like the DAX have also grown by 2.21%, whereas the FTSE 100 and CAC 40 have shown declines or stagnation. Notably, the Asian markets saw major shifts, with the HANG SENG and SSE COMPOSITE showing exceptional growth at 17.48% and 17.39%, respectively, signaling strong recovery or investor confidence in China. On the other hand, Japan's NIKKEI 225 index is down by 2.40%, showing weakness in that market.

In the commodities and cryptocurrency markets, Bitcoin and Ethereum have both gained value, up 7.60% and 4.15%, respectively, continuing their bullish trends in the digital asset space. Gold has risen 5.27%, likely reflecting its status as a safe-haven asset amid market uncertainties. Brent Crude, however, has seen a significant drop of 8.80%, which could be due to factors like declining demand, increased production, or economic pressures affecting oil prices.

In conclusion, the overall trend reflects a robust performance in equity markets, particularly in China and the US, while currency markets remain mixed. Commodities like gold and cryptocurrencies are gaining momentum, while the decline in oil prices highlights potential supply-demand imbalances. Investors may need to stay cautious about potential volatility in global markets, particularly in Asia and commodity sectors.



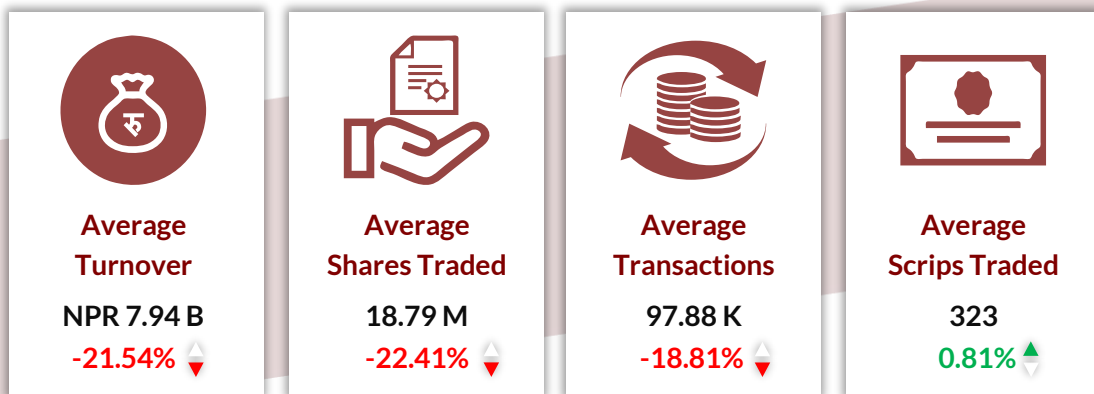
Macroeconomic Overview



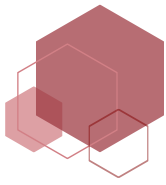
* Growth refers to the change between one-month data of FY 80/81 and FY 81/82.

* Credit refers to claim on private sector.

Monthly Trading Statistics



* For the period (September 1, 2024) - (September 29, 2024)



Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Shrawan-80	Ashad-81	Shrawan-81	Ashwin 4	Ashwin 11	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	4.16	2.97	2.94	2.96	2.96	-1.22	-0.03	0.00
Wt.Avg 91 Days TB rate (%)	5.92	3.00	2.94	2.90	2.95	-2.98	-0.06	0.05
Wt.Avg 364 Days TB rate (%)	6.37	3.19	3.04	3.02	3.02	-3.33	-0.15	0.00
Wt. Avg Interbank Rate (%)	5.91	2.99	2.99	3.00	3.00	-2.92	0.00	0.00
CapEx (In Billion NPR)	0.82	191.72	8.55	15.65	18.34	7.73	-183.17	2.69

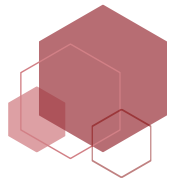
B. BFI Statistics

Description	Value As On					Change		
	Shrawan-80	Ashad-81	Shrawan-81	Ashwin 4	Ashwin 11	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	8.00	5.77	5.66	5.66	5.66	-2.34	-0.11	0.00
Wt. Avg Lending Rate (%)	12.24	9.93	9.68	9.68	9.68	-2.56	-0.25	0.00
Base Rate (%)	10.11	8.00	7.61	7.61	7.61	-2.50	-0.39	0.00
CD Ratio (%)	83.57	79.09	78.80	78.78	78.86	-4.77	-0.29	0.08
Fixed Deposits/Total Deposits (%)	60.89	56.08	57.15	57.15	57.15	-3.74	1.07	0.00
Total Liquid Assets/Total Deposits (%)	25.68	26.44	25.71	25.71	25.71	0.03	-0.73	0.00

Public Debt Subscription

Category	Issue Date	Offered Amount	Payment By GoN	No. of Participants	No. of Bids	BID Ratio	Allocated Amount	Discount Rate		
								Lowest	Highest	Average
28 Days	Bhadra 25	500.00	0.00	19	32	3.50	500.00	2.83	2.97	2.96
91 Days	Ashwin 8	1511.25	0.00	16	38	1.33	1511.25	0.91	3.00	2.95
182 Days	Ashwin 2	430.00	0.00	11	36	3.06	430.00	2.97	3.00	2.99
364 Days	Ashwin 2	500.00	0.00	13	21	2.32	500.00	2.97	3.05	3.02

*Figures are in Millions NPR

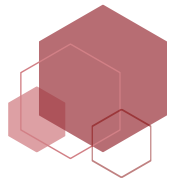


Sectoral Movement

Index	Bhadra 13	Ashwin 14	Change
NEPSE	2,749.57	2,508.86	-8.75%
Non Life Insurance	13,108.97	12,667.17	-3.37%
Manufacturing & Processing	7,295.83	7,003.83	-4.00%
Commercial Bank	1,559.76	1,444.59	-7.38%
Mutual Fund	21.97	20.34	-7.42%
Microfinance	5,107.24	4,723.16	-7.52%
Life Insurance	13,486.03	12,402.78	-8.03%
Development Bank	5,436.27	4,968.87	-8.60%
Others	2,101.49	1,916.00	-8.83%
Trading	3,772.09	3,433.25	-8.98%
Investment	111.35	100.22	-10.00%
Hydropower	3,419.34	2,993.28	-12.46%
Hotels & Tourism	7,155.68	6,159.94	-13.92%
Finance Company	3,559.94	2,826.02	-20.62%

Major Movers

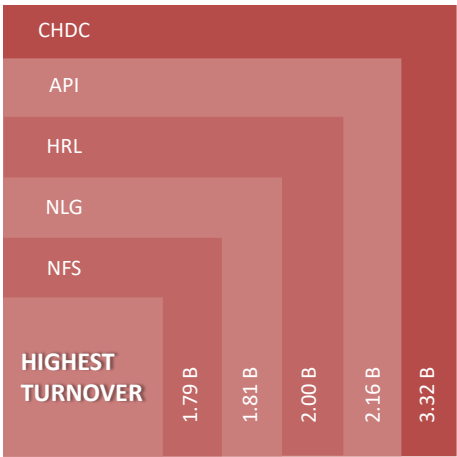
WNLB	91.26%	NFS	-35.80%
EHPL	39.81%	TSHL	-34.11%
USHL	29.22%	MKHL	-31.32%
NLG	25.33%	DOLTI	-30.09%
ANLB	19.61%	GFCL	-28.52%



Sectoral Divergence-Turnover

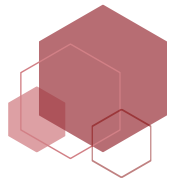
Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	10.12 B	7.94 B	-21.54%
Mutual Fund	0.01 B	0.01 B	8.40%
Non Life Insurance	0.47 B	0.48 B	1.17%
Investment	0.76 B	0.70 B	-7.80%
Development Banks	0.70 B	0.61 B	-12.91%
Life Insurance	0.57 B	0.48 B	-14.69%
Finance	1.13 B	0.90 B	-19.81%
Hydro Power	2.94 B	2.28 B	-22.72%
Commercial Banks	1.14 B	0.82 B	-28.02%
Microfinance	0.85 B	0.59 B	-30.06%
Hotels And Tourism	0.24 B	0.17 B	-30.72%
Tradings	0.04 B	0.03 B	-33.36%
Others	0.53 B	0.35 B	-34.05%
Manufacturing And Processing	0.49 B	0.29 B	-41.33%

Highest Turnover



Highest Volume





NEPSE Outlook

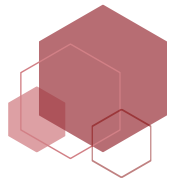
A. Current Overview



At the end of September 2024, the flagship NEPSE index closed at 2,508.86 points, indicating a significant decline in market activity. The monthly average turnover fell to NPR 7.75 billion, a sharp decrease from the previous month's average of NPR 21.12 billion. This downturn in turnover is largely attributed to a shift in investor behavior; traders have increasingly utilized margin lending facilities provided by brokers and engaged in same-day buying and selling, which had previously driven higher turnover levels. The current trading activity has not generated the higher volumes needed to sustain the ongoing bullish trend. Additionally, the approaching Dashain festival has had a seasonal impact on the market, as investors booked profits in the festive season, a trend that has been observed over the years.

The Relative Strength Index (RSI) is currently at 40.23 points which is a neutral zone and the MACD indicator is signaling a bearish trend

Looking ahead, the NEPSE index's immediate support levels are identified as (S1) 2,440 and (S2) 2,300 while immediate resistance levels are recognized at (R1) 2,600, (R2) 2,750, and (R3) 2,810. These support and resistance levels serve as valuable indicators for investors when formulating trading decisions.



B. Long Term Overview

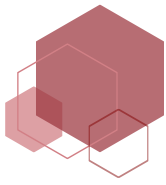


The NEPSE index has recently surged past the psychological barrier of 2200, a milestone not achieved in over two years. This upward momentum has been fueled by several key factors: the recent reduction in interest rates, the appointment of Mr. Bishnu Prasad Paudel as Finance Minister—a figure well-regarded by investors—and the Nepal Rastra Bank's (NRB) rate cuts aimed at boosting the economy.

The NRB has lowered the policy rates and introduced rate cuts, particularly benefiting the banking, financial institutions (BFI), and construction sectors. Additionally, the NRB's decision to lift the NPR 20 crore cap on institutional investors is expected to further inject capital into the market.

While these measures have generated optimism, it's crucial to remember that their full impact remains to be seen. Continued monitoring of the monetary policy review for fiscal year 2081/82 will provide deeper insights into the evolving economic landscape.

NEPSE has experienced a downward trend over the past two weeks, declining by 8.37% from its recent peak of 3,000.81. This movement is primarily attributed to profit-taking by traders, which has tempered the market's upward momentum. The current trading activity has also not generated the higher volumes needed to sustain the ongoing bullish trend.



C. Microfinance Industry in Nepal

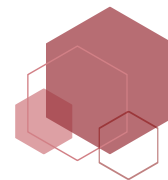
I. An Overview

- 1. Consolidation Push:** NRB incentivizes M&A for integrated operations by mid-July 2024. Only six microfinance institutions seized the opportunity, consolidating to reduce the total from six to three.
- 2. Loan Interest Rate Cap:** NRB imposes a 15% cap to protect borrowers, impacting MFI revenue generation.
- 3. Financial Performance:** Strong earnings for leading companies like CBBL and NUBL; smaller MFIs face pressure.
- 4. New Regulatory Framework:** "Stressed loan resolution framework" introduced to tackle problematic loans.
- 5. Technological Integration:** MFIs adopting digital platforms, but rural areas still face challenges.
- 6. Future Outlook:** Industry poised for growth with further consolidation, regulatory support, and digital innovation.

II. Benefits of a Low-Interest Rate Environment for Microfinance in Nepal

Interest rates have been on a downward trend, which presents a favorable environment for the microfinance industry. As microfinance institutions typically rely on loans from commercial banks to fund their lending activities, lower interest rates directly reduce their borrowing costs. This, in turn, enhances their ability to offer loans at more competitive rates, increasing accessibility for borrowers, especially those in underserved communities. Furthermore, reduced borrowing costs improve the profitability of microfinance institutions, allowing them to expand their outreach and services. Let us examine how this declining interest rate environment benefits the microfinance sector:

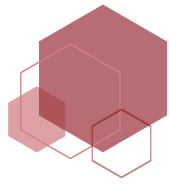
- 1. Lower Borrowing Costs:** MFIs can access loans from banks at reduced costs, allowing them to maintain competitive lending rates near the 15% cap, making services more affordable for clients.
- 2. Increased Lending Capacity:** Lower interest rates incentivize MFIs to expand lending volumes, reaching more underserved populations and promoting financial inclusion.



3. **Enhanced Profitability:** Despite the interest cap, reduced borrowing costs improve profitability, allowing MFIs to reinvest in operations and expand their service offerings.
4. **Encouragement of Responsible Borrowing:** Borrowers are more likely to seek loans for productive purposes, leading to enhanced repayment capacity and lower default rates for MFIs.
5. **Investment in Technology and Innovation:** Increased profits enable MFIs to invest in digital platforms, improving efficiency and enhancing the customer experience.
6. **Economic Growth and Increased Demand:** Low interest rates stimulate economic activity, increasing demand for microfinance services, especially in rural areas and allowing MFIs to diversify their portfolios.

III. Amendment/Modification/Additional Provisions to the Unified Directive, 2079, issued to "Class D" Microfinance Financial Institutions licensed by Nepal Rastra Bank, issued in FY 2081/82.

- ✓ Institutions can now charge a service fee of up to 1.3% on approved loans, down from 1.5%. For loans under one year, the fee is based on loan duration and capped at an annual rate of 1.3%. This reduction may increase loan demand, benefiting borrowers, but could also impact lender profitability.
- ✓ Microcredit up to NPR 500,000 is now available for low-income individuals to operate small enterprises under group guarantees. For group members with a two-year repayment history, the limit is NPR 700,000. Additionally, loans up to NPR 25,000 can be granted per family under family guarantees. This provision is a new addition not included in the previous NRB directive.
- ✓ Microloans can now be provided without collateral under group guarantees or with collateral protection, allowing up to two microfinance institutions to disburse loans to a single borrower. This change, which replaces the previous rule limiting loans to one institution, increases credit access for borrowers and promotes financial inclusion while managing risk through group guarantees or collateral.
- ✓ Previously, 1% of total profit was allocated to the client protection fund. This will increase to 1.5% in 2082 Asar, 2% in 2083 Asar, and 3% in 2084 Asar. This progressive increase demonstrates a commitment to enhancing client protection and ensuring greater financial security for microfinance stakeholders.



SCRIP ANALYSIS

Forward Microfinance Laghubitta Bittiya Sanstha Limited (FOWAD)

A. About the Company Forward

Forward Microfinance Laghubitta Bittiya Sanstha Ltd. (FOWAD) is a national-level "D" Class microfinance development bank established on September 13, 2012 (2069 Bhadra 28) under the Companies Act of 2006 in Nepal. The institution received its license for financial transactions from Nepal Rastra Bank, the central bank of Nepal, on March 19, 2013 (2069 Chaitra 06), and formally commenced operations on May 17, 2013 (2070 Jestha 03).

FOWAD's operations build upon the microfinance services previously offered by the NGO Forum for Rural Women Ardency Development (FORWARD), which had been active since December 15, 2002 (2059-09-15). The inception of FOWAD traces back to a visionary initiative by the Late Mr. Dinesh Chaudhary, the Founder and Executive Director of FORWARD, who sought to empower marginalized communities in rural areas. This legacy underscores FOWAD's commitment to providing accessible financial services to underserved populations, fostering economic development, and enhancing financial inclusion within Nepal.

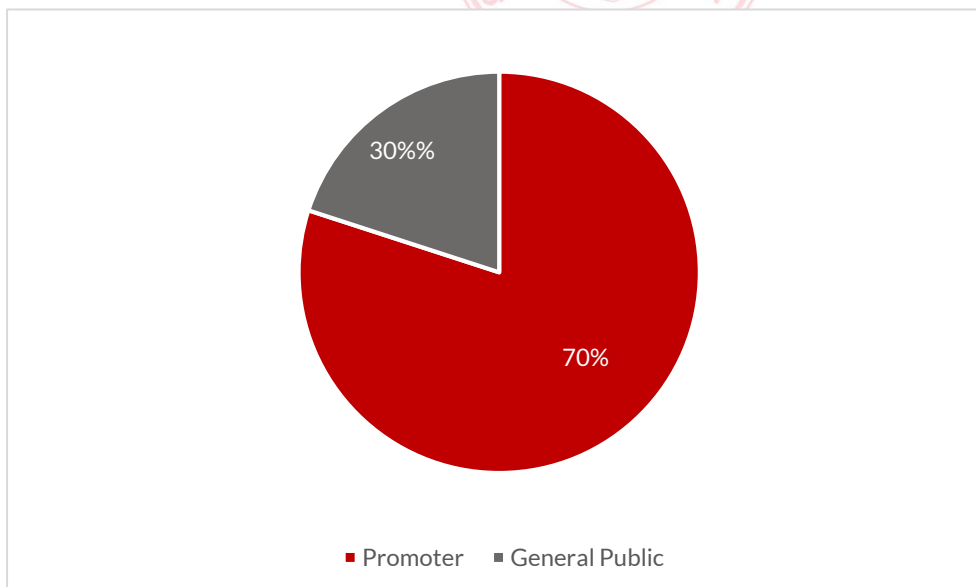
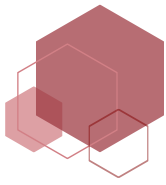


Figure: Shareholding Pattern of FOWAD as per its website

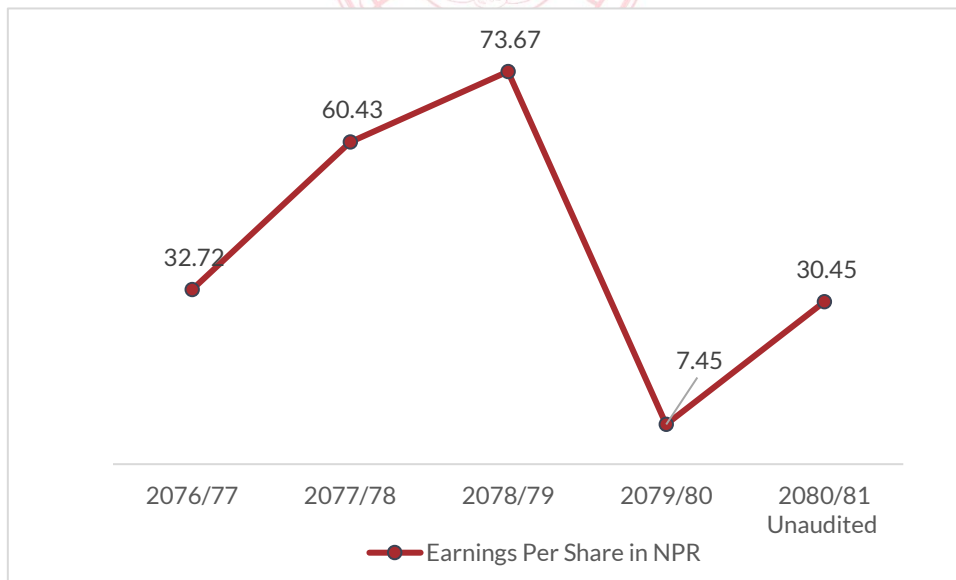


B. Technical Analysis

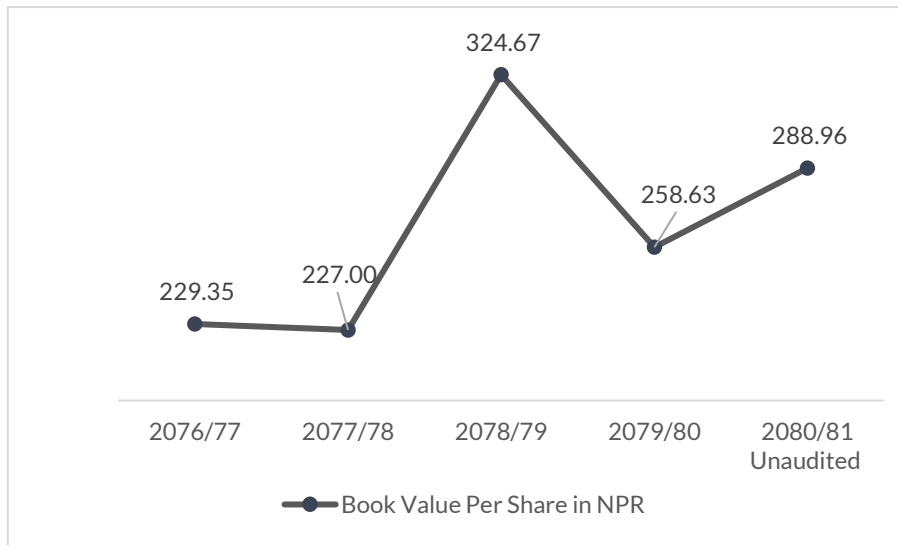
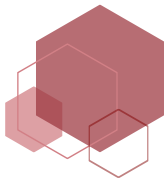


The stock of Forward Community Microfinance is attempting to break out from a descending trendline after finding support near NPR 1400. The RSI at 50.91 indicates a neutral zone, signaling indecision in the market. MACD shows a slight bullish crossover, suggesting potential upward momentum. Resistance lies at NPR 1736.53, while strong support is observed at NPR 1334.31. A breakout above the trendline could signal further gains.

Comparative Annual Performance Visualizations



Annual Comparison of Earning Per Share



Annual Comparison of Book Value Per Share

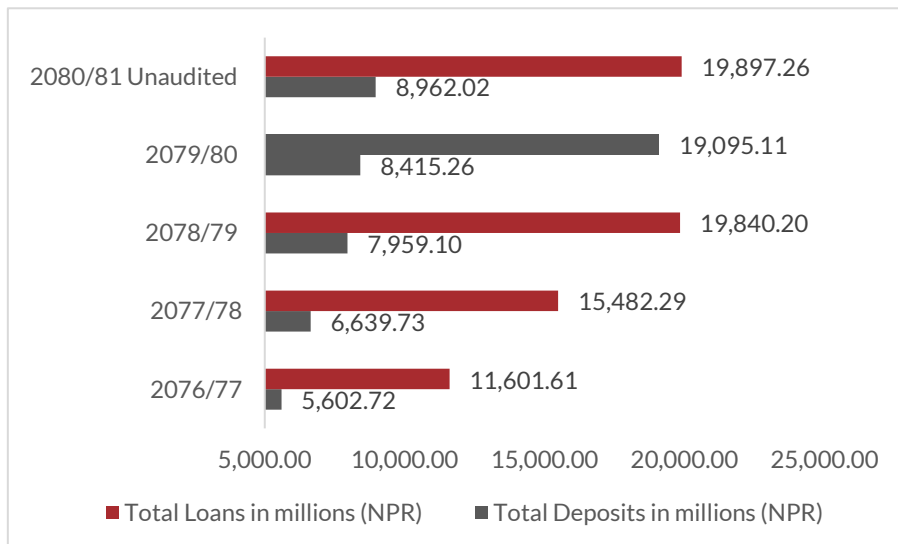


Figure: Annual Comparison of Loan and Deposit

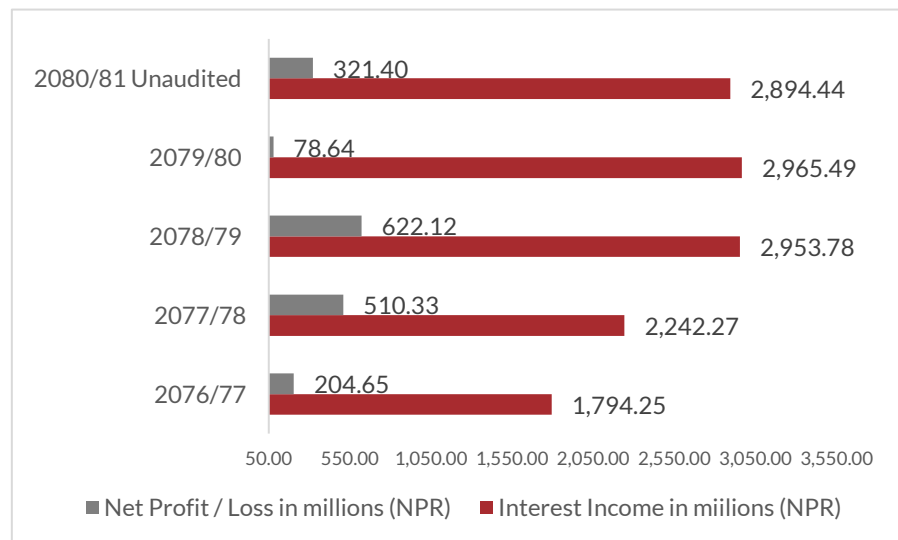


Figure: Annual Comparison of Net profit/Loss and Interest Income

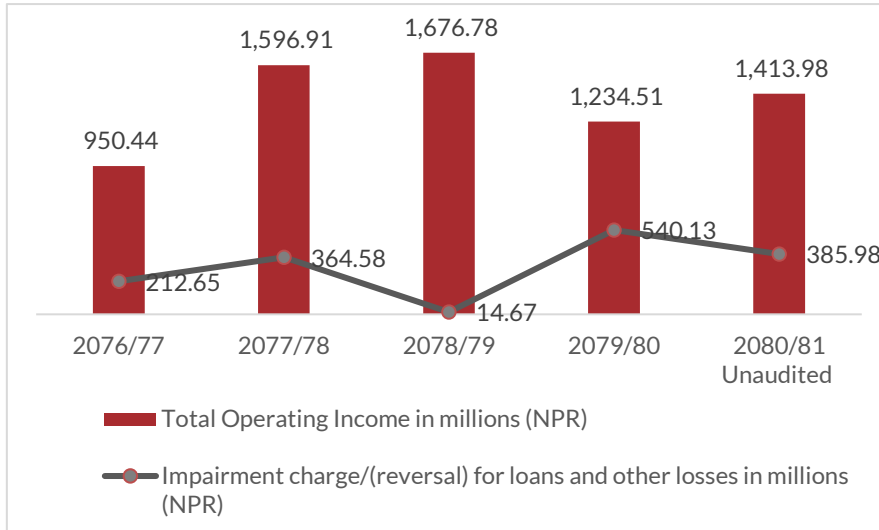
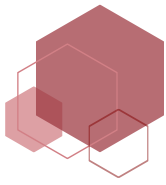


Figure: Annual Comparison of Operating Income and Impairment charge (reversal)

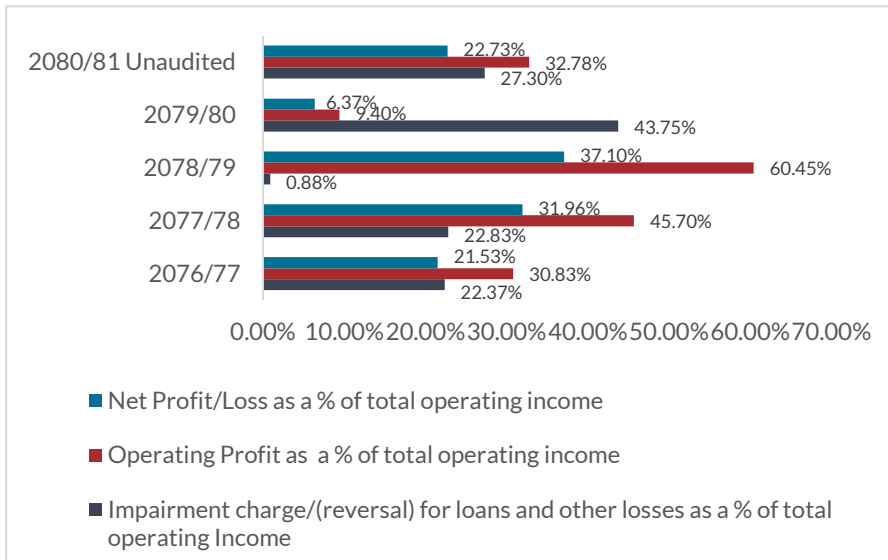


Figure: Annual Comparison of Net profit, Operating Profit and Impairment charge (reversal) as a % total operating income

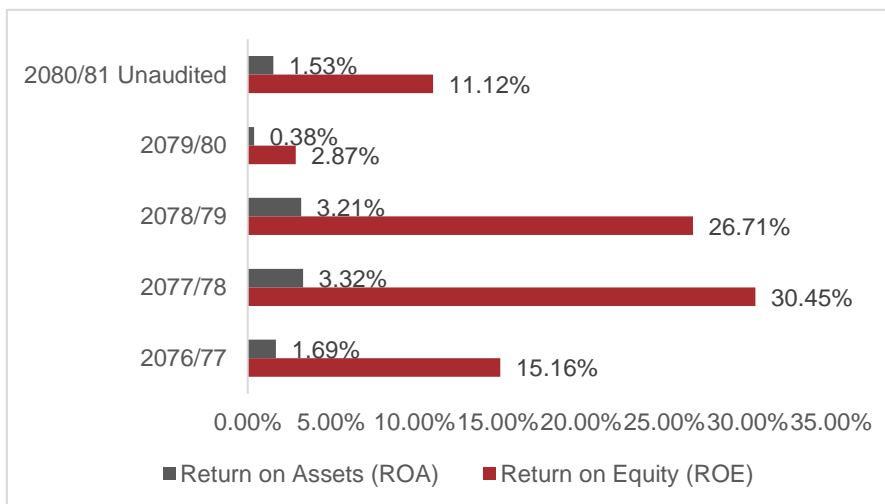


Figure: Annual Comparison of Return on Equity and Return on Assets

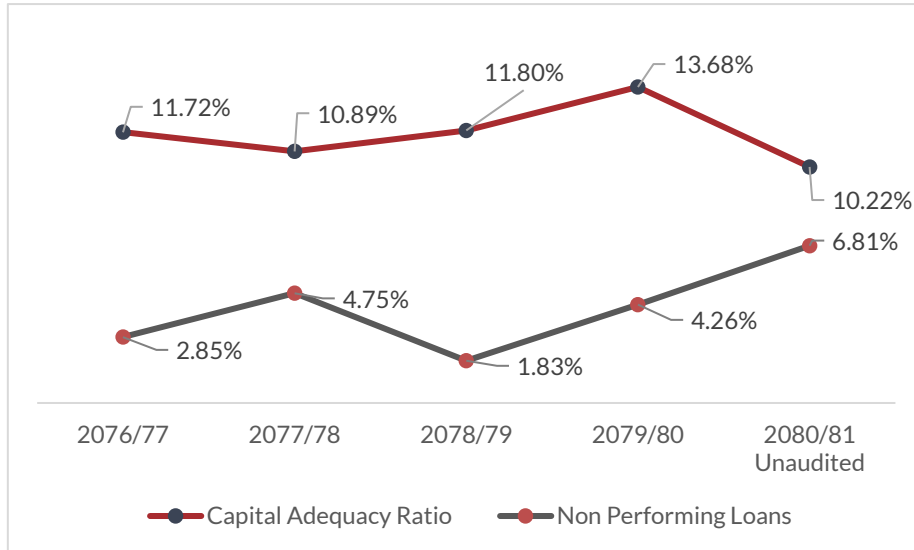
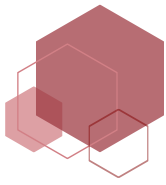


Figure: Annual Comparison of Capital Adequacy ratio and Non-Performing Loans

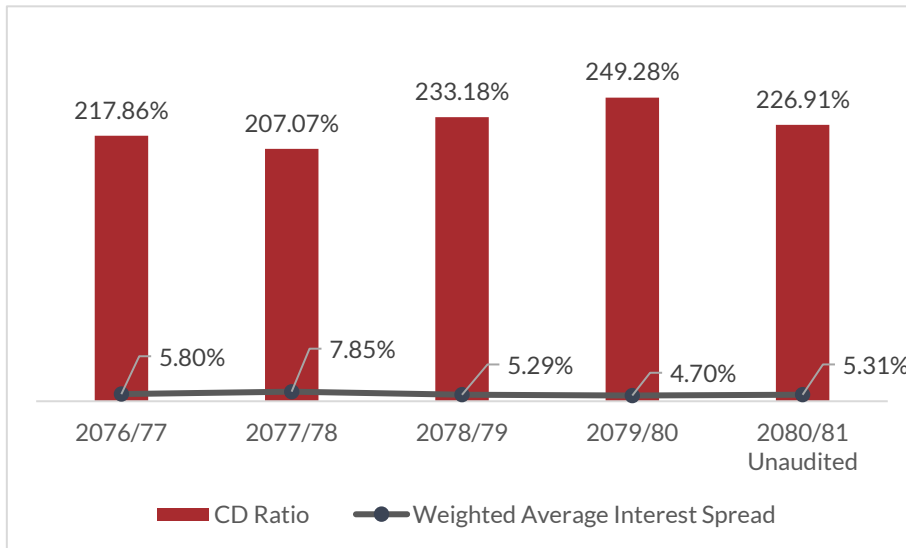
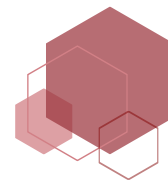


Figure: Annual Comparison of CD Ratio and Weighted Average Interest Spread

Total Operating Income Analysis of FOWAD

Particulars	2076/77	2077/78	2078/79	2079/80	2080/81 Unaudited
Net Interest Income	79.11%	78.31%	85.26%	91.30%	86.09%
Fees, Commission, and Discounts	20.89%	21.69%	14.31%	8.57%	13.84%
Other Operating Income	0.00%	0.00%	0.43%	0.13%	0.07%
Foreign Exchange Gain/Loss (Net)	0.00%	0.00%	0.00%	0.00%	0.00%

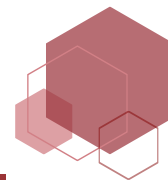


An Analytical View of the Operating Income Analysis of FOWAD

- 1. Increasing Reliance on Net Interest Income:** Net Interest Income (NII) remains dominant, reaching 91.30% in FY 2079/80 and 86.09% in FY 2080/81 (unaudited). With loan rates capped at 15%, microfinance institutions benefit as their borrowing costs from banks decrease, widening profit margins.
- 2. Decline in Fee-Based Income:** Fees, Commissions, and Discounts have significantly decreased, from 20.89% in FY 2076/77 to 8.57% in FY 2079/80. This suggests that fee income plays a smaller role, making the institution more reliant on interest margins.
- 3. Minimal Other Income:** Other Operating Income remains negligible, indicating limited diversification. With loan rates fixed, the institution's ability to grow revenue from non-interest sources remains constrained.
- 4. No Foreign Exchange Exposure:** The absence of foreign exchange transactions reduces risk but limits opportunities for international income growth.
- 5. Impact of Low Interest Rates:** Although loan rates remain at 15%, the current low-interest-rate environment benefits microfinance institutions by lowering their borrowing costs from banks. This enhances profitability as they lend to rural areas at unchanged rates, expanding margins without raising loan rates.

Comparable Company Analysis as of FY 2080/81 Q4 (National Level Retail Microfinances)

Company	FOWAD	JBLB	MERO	NMFBS	NMLBBL	SWBBL	SWMF	Avg
Paid Up Cap (NPR Billion)	1.06	1.35	1.32	1.17	1.4	1.45	1.04	1.25
Market Cap (NPR Trillion)	1.49	1.98	0.96	1.59	1.03	1.41	0.83	1.33
EPS (NPR)	30.45	43.21	16.63	29.25	31.98	37.12	10.84	28.5
BVPS (NPR)	288.96	271.03	160.53	245.9	194.39	249.57	165.54	225.13
ROA (%)	1.53	2.16	1.49	1.7	2.89	2.62	0.87	1.89
ROE (%)	11.12	17.21	10.92	12.38	24.43	16.09	6.76	14.13
CAR (%)	10.22	10.81	13.31	11.3	9.48	13.39	11.51	11.43
NPL (%)	6.81	4.66	7.68	3.25	6.6	7.92	6.11	6.15



Company	FOWAD	JBLB	MERO	NMFBS	NMLBBL	SWBBL	SWMF	Avg
CD Ratio as per NRB Calculations (%)	113.26	121.42	118.02	369.78	117.31	122.24	108.44	152.92
Base Rate (%)	12.61	12.61	13.55	13.84	14.11	14.56	16.37	13.95
Spread Rate (%)	5.31	4.35	6.88	4.23	6.92	4.92	5.49	5.44

Figure: Comparable Company Analysis for national-level retail microfinance with paid-up capital ranging from NPR 1 billion to NPR 1.5 billion

Comparable Company Summary:

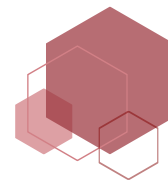
FOWAD's paid-up capital of NPR 1.05 billion is the second-lowest among its peers, below the average of NPR 1.25 billion, reflecting that it operates with relatively modest resources. However, its market capitalization of NPR 1.49 billion exceeds the average of NPR 1.32 billion, signaling strong investor confidence and market performance despite its lower capital.

FOWAD's earnings per share (EPS) of NPR 30.45 are higher than the industry average, indicating strong profitability per share. However, its return on assets (ROA) of 1.53 is below the average of 1.89, suggesting room for improvement in asset utilization. The return on equity (ROE) of 11.12 is also lower than the industry average, showing shareholders receive a smaller return than peers. FOWAD's capital adequacy ratio (CAR) of 10.22 is slightly below the industry average, indicating room for improvement in maintaining a capital buffer. With a non-performing loan (NPL) ratio of 6.81, slightly above the average, FOWAD faces more loan recovery challenges, increasing credit risk. Its credit to deposit (CD) ratio of 113.26 is lower than the industry average, implying less aggressive lending practices. Additionally, FOWAD's base rate of 12.61 and spread rate of 5.31 are slightly below average, indicating a competitive lending rate but tighter profit margins.

FOWAD shows strong market confidence and profitability, but there are opportunities to improve asset utilization, shareholder returns, and credit risk management while balancing competitive lending rates with profitability.

Key Variables used for Valuation:

1. Sustainable Growth Rate for longer period projection to calculate terminal value (Average Last 12 years GDP growth rate and Projected GDP growth rate for this FY by the World Bank) = 3.63
2. Other specifics are as follows:



Specifics	Value	Remarks
Adjusted Beta (β)	0.95	Assumption - The raw weekly beta of 1.03 for FOWAD is expected to gradually converge toward the market beta of 1 over time.
Market Return (Rm)	11.04	CAGR of closing prices of NEPSE from FY 2001/02 to FY 2023/24
Risk Free Rate (Rf)	5.15	Latest Development Bond Rate adjusted for tax rate of 6.00
Cost of Equity (Ke)	10.77	As per CAPM Model

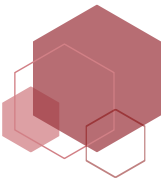
Other assumptions:

- ✓ Valuation has been done from FY 2080/81 (actual) to FY 2084/85.
- ✓ For FY 2080/81, the Q4 unaudited report has been considered.
- ✓ Fee and commission income and other operating income are expected to increase by 4 annually.
- ✓ Base Case: Impairment charges are projected to remain stable at 15, 10, 10, and 7.5, respectively, over the forecast period.
- ✓ Best Case: Impairment charges are expected to decrease to 10, 5, 4, and stabilize at 4.
- ✓ Worst Case: Impairment charges are anticipated to increase progressively, reflecting heightened risk factors.
- ✓ The company's expenses for all three scenarios have been projected based on different historical ratios.
- ✓ The tax rate is expected to remain at 30 throughout the forecast period.

C. Stock Valuation

The final average valuation of FOWAD based on the Residual Income Approach has been computed, which has been tabulated below.

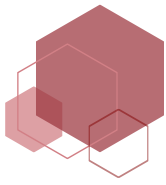
Residual Income Valuation	Valuation Price (NPR)
Bear Case	426.66
Base Case	681.57
Bull Case	780.71
Average Valuation	629.65



D. Conclusion

In conclusion, Forward Microfinance Laghubitta Bittiya Sanstha Limited (FOWAD) stands out as a resilient player in Nepal's microfinance industry. The institution has successfully leveraged a favorable low-interest rate environment to enhance its lending capacity and profitability. Despite operating with relatively modest paid-up capital, FOWAD has achieved strong investor confidence, evidenced by its market capitalization exceeding industry averages. However, challenges remain, particularly in improving return on assets (ROA) and return on equity (ROE), as well as managing credit risks indicated by its non-performing loan (NPL) ratio. By focusing on enhancing asset utilization and maintaining robust credit risk management practices, FOWAD can strengthen its position and continue to foster financial inclusion among underserved communities in Nepal.





ISSUE OF THE MONTH

Contrarian Investing

A. What is a Contrarian?

“Contrarian – A trader whose reasons for making trade decisions are based on logic and analysis and not on emotional reaction.”

A contrarian investment approach is one that is built on spotting and betting against stock price fluctuations that reflect changes in the majority of investors' views. A contrarian takes judgments for reasons that other traders do not. Most people purchase because they are greedy and sell because they are panicked. As a result, people have a predisposition to make poor judgments. A contrarian does not just behave in opposition to the majority of traders, but also does not follow the majority if indications support the opposite conclusion.

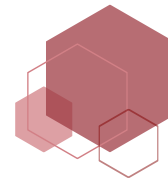
Contrarian investing is thus a market timing approach that may be used in any trading timeframe. Contrarians assume that financial instruments that have been consistently can reverse and begin to decrease, and vice versa. The contrarian trader thus buys a falling item or short-sells a rising one confident in that the trend will reverse in some time based on market indicators.

B. How most traders trade (trading tendencies and market behavior)

Everyone has heard the phrase "buy low, sell high." This appears to be simple, yet most traders tend to do the exact opposite. They tend to purchase high (because of greed) and sell low (due to panic). A contrarian behaves differently and tries to "buy cheap and sell high" by looking for market over-reactions to certain news which underprice or overprice a stock.

C. How a Contrarian trades:

A contrarian understands that most traders follow the majority, and the majority often tends to be wrong due to excessive greed or fear i.e., As prices rise, a growing number of people tend to buy, and the higher the price, the more buyers enter the market and when prices fall, a growing number of people tend to sell, and the lower the price, the more sellers will try to exit the market creating great buy and sell opportunities in the process.



Knowing this, A Contrarian thus attempts to make decisions in spite of what the majority is doing but does not do so on a whim rather making wise decisions more often than not, based on analysis and reading of signals. They tend to buy when prices are depressed, especially if reversal signals indicate a coming uptrend and sell when prices rise to new heights, especially if reversal signals indicate a coming downtrend.

Thus, a Contrarian not only employs logic and analysis, but also times trades based on strong reversal signals found in price patterns, candlestick indicators, volume spikes and momentum oscillators. Contrarians assume the confirmation of reversals, using the same signals and indicators as reversals; and the stronger the confirmation, the more confidence a contrarian will have. A contrarian avoids placing too much capital into any single trade, to minimize losses and to avoid large losses and uses other risk reduction methods such as hedging and diversification

A contrarian will continuously observe market trends and look for reversals in the following indicators to make a contrarian call/trade.

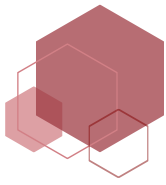
- Traditional price reversal patterns like the head and shoulders, double tops or bottoms, and price gaps – especially when these appear at or near resistance or support
- Volume indicators as well as volume spikes, a one-day or two-day exceptionally high number of trades
- Momentum oscillators, indicators designed to reveal how quickly trends develop, when they begin to slow down, and when a stock is overbought (a bearish signal) or oversold (a bullish signal)

D. Contrarians and the efficient market hypothesis

“Efficient Market Hypothesis – The belief that all current prices are based on the accumulation of all known facts and news about the company, meaning that all prices are currently fair and efficient.”

Contrarians think that prices may be forecast to some extent based on a rational and analytical examination of market behavior and news. This notion is challenged by the efficient market hypothesis (EMH), which holds that the market is efficient, and that all information is integrated into a stock's price.

However, if markets were genuinely efficient, prices would respond uniformly to all news, such as profits or merger announcements. According to EMH, reactions to earnings shocks should be calculated and accurate, and they should not be open to



rectification. EMH fails to understand market behavior factors, which might be the most significant feature of stock market investing and trading.

A contrarian has seen how price behaves irrationally and how price tends to overreact to any unexpected news. Contrarians feel the market is highly inefficient under these conditions. If such is the case, then the one-day price change will be overstated. If that is true, then exaggerated one-day price movements present an opportunity to exploit inefficiency.

E. Contrarians and the Random Walk Theory

“Random Walk Theory – A theory about the market stating that it is impossible to predict the direction of price movement, and that any price today has a 50 chance of rising or falling.”

Contrarians also oppose the Random Walk Theory because they believe that price movements may be forecast based on market activity and fundamental analysis. If the random walk hypothesis is correct, all types of analysis are rendered meaningless. For this reason, the contrarian rejects the hypothesis.

It wouldn't matter which stock was chosen if all prices were 50/50 bets; half would increase and half would fall. You must reject the impacts of high sales and profitability in one firm vs low outcomes in another under the random walk. You would also have to discard reputation, competitive success, and outstanding management. All of this would be irrelevant since price movement would occur independently of these variables.

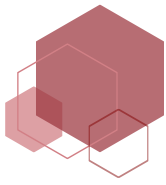
F. Contrarians and the Dow Theory

“Dow Theory – A series of “rules” about market trends and how they are set and reversed. The theory is based on the teachings of Charles Dow, one of the two founders of the Dow Jones company.”

Contrarians accept the basis of the Dow Theory over the long term, while also recognizing that short-term price behavior tends to be chaotic and irrational. The contrarian views the Dow Theory as an organizing principle of technical analysis, while also observing how volatile short-term price movement and market behavior present trading opportunities.

I. The Tenets of the Dow Theory

- ✓ The market consists of three movements: primary, secondary, and short-term.
- ✓ Trends consist of three phases: accumulation, public participation, and distribution.



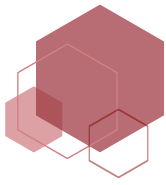
- ✓ The market tends to discount all news very quickly.
- ✓ Stock averages must confirm each other before a reversal is recognized.
- ✓ Volume confirms trends.
- ✓ Trends continue until a contrary signal is recognized and confirmed.

Many have pointed to the tenet that the market discounts news, to support the efficient market hypothesis. It is true that the market behaves in this manner, but it often takes several days for the discounting to go into effect. Contrarians are strong proponents of the Dow Theory over the long term and recognize that the core of trend analysis rests with recognition of reversal and confirmation.

G. Finally

Contrarians although appearing to act in opposition to the majority do not act so on a whim, rather they tend to make decisions for different reasons than others – utilizing reasoning and analysis rather than emotion, which makes them more successful in the long run. Contrarian investing thus is similar to value investing as a contrarian seeks out mispriced stocks and purchases those that appear to be undervalued by the market. Thus Warren Buffett, one of the best-known value investors is also the most well-known example of a contrarian investor. One of his most famous phrases sums up his approach to contrarian investing: "be fearful when others are greedy, and greedy when others are fearful." Thus, recognizing when to be free of the effect of trends, observing changes in market behaviors, and acting on well-founded information become key in making more profitable investments.

**This article was previously published in the Poush, 2078 edition of The Pulse.*



Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
NLICLP	AUCTION	15,945 (P)	2024/09/29 AD	2024/10/06 BS	NIC Asia Capital
			2081/06/13 BS	2081/06/20 BS	
AKJCL	AUCTION	1,750,248 (P)	2024/09/27 AD	2024/10/06 AD	Nabil Investment Banking
			2081/06/11 BS	2081/06/20 BS	
SMBPO	AUCTION	5,000 (P)	2024/09/25 AD	2024/10/29 AD	RBB Merchant Banking
			2081/06/06 BS	2081/07/13 BS	
KBLPO	AUCTION	2,422,548 (P)	2024/09/18 AD	2024/10/02 AD	Laxmi Sunrise Capital
			2081/06/02 BS	2081/06/16 BS	
NABILP	AUCTION	300,000 (P)	2024/09/18 AD	2024/10/02 AD	Laxmi Sunrise Capital
			2081/06/02 BS	2081/06/16 BS	

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Himalayan Capital Limited
IT Plaza, Kamaladi, Kathmandu,
Contact: 01-5970675, 358345, 5363147
www.himalayancapital.com
info@himalayancapital.com