

The Pulse

Market Growth, Risks and Outlook

Falgun 2080

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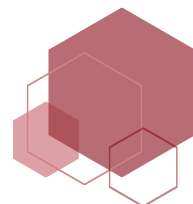
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हिमालयन क्यापिटल लि.



Himalayan Capital





A Subsidiary of Himalayan Bank Limited



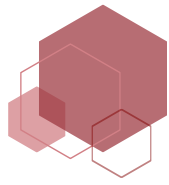
Global Markets Overview

€	1.08 \$ (-0.19%)	S&P 500	5,069.76 (4.62%)
£	1.27 \$ (-0.51%)	BSE SENSEX	72,174.91 (0.59%)
₹	82.90* (-0.16%)	NIKKEI 225	39,208.03 (8.05%)
¥	149.86* (2.46%)	FTSE 100	7,624.98 (-0.07%)
A\$	0.65 \$ (-1.22%)	DAX	17,601.22 (4.13%)
C\$	0.74 \$ (-1.37%)	CAC 40	7,954.39 (3.89%)
		HANG SENG	16,536.85 (6.79%)
		SSE COMPOSITE	2,957.85 (6.07%)

*Values Per 1 \$

	Gold(\$) Per Oz. 2,034.84 (-0.90%)		Bitcoin(\$) 62,513.10 (46.92%)
	Brent Crude(\$) Per Barrell 81.637 (1.12%)		Ethereum(\$) 3,386.64 (48.43%)

#All Changes are in MoM basis.



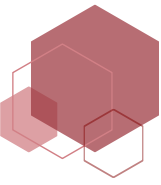
Currency Market Trends

Local currency (NPR) was slightly weak against US dollar in the month February. It was depreciated by around 0.26% and trading at 132.95. EUR and GBP also witness some weakness against local currency. EURO depreciated by 0.19% as compared to last month rate from 143.90 to 143.48. Likewise, GBP was depreciated by 0.51% from 168.20 to 167.56 against local currency. INR was somehow stable against USD and volatility was in very tight range. Fed has signaled delayed in rate cut which has kept USD on driver seat against rest of currencies like EUR, GBP, JPY and INR. At present US Fed rate is in the band of 5.25 - 5.50%. Market is now expecting 3 rates cut of 0.25% in this FY against earlier 6 times cut. The ongoing political unrest around the globe, additional economic restriction to Russia after the death of opposition leader has made USD and gold more favorable.

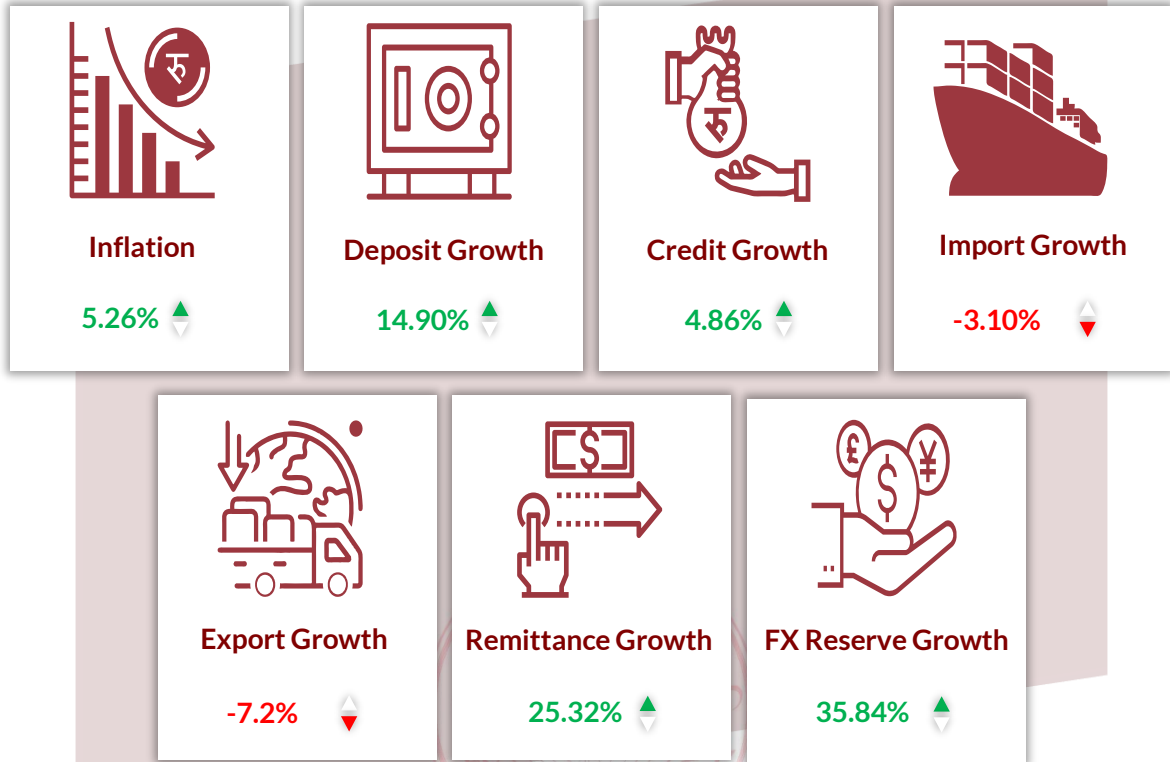
Global stock markets saw mixed performance: S&P 500 surged by 4.62%, NIKKEI 225 by 8.05%, HANG SENG and SSE COMPOSITE by 6.79% and 6.07%, respectively, signaling positivity in US, Japan, Hong Kong, and China. FTSE 100 remained stable with a slight decrease of -0.07%, BSE SENSEX gained 0.59%, and DAX and CAC 40 increased by 4.13% and 3.89%, respectively, reflecting optimism in the German and French stock markets.

In the realm of cryptocurrencies and assets, Bitcoin and Ethereum experienced substantial growth, surging by 46.92% and 48.43%, respectively, reflecting renewed investor interest and growing adoption. Gold price is trading near to 2033 per ounce. Citing the present global context, we expect gold will be traded above 2000 per ounce for rest of month with chances to touch 2100 per ounce in coming months. Oil price has slightly come down to 72.09 per barrel at the moment. We don't see much movement in the oil this month.

In conclusion, at the present moment US dollar is in the driving seat and other major central bank are just waiting fed rate decision in upcoming months. EUR/ GBP / JPY seems weak against US Dollar. Overall, global stock markets trends highlight the dynamic nature of global financial markets, shaped by a combination of economic factors, corporate performance, and investor sentiment. Investors seem more diverted toward gold due to uncertainty and unrest in market. The escalation between Israel and Hamas, US/ Syria, Russia/Ukraine plus additional sanction to Russia will continue to pressure the oil price, gold price.



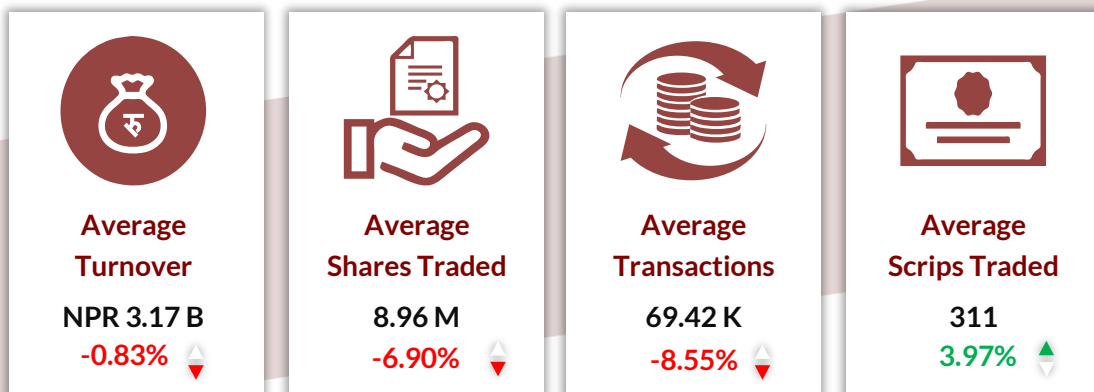
Macroeconomic Overview



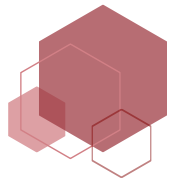
* Growth refers to the change between six months of FY 79/80 and FY 80/81.

* Credit refers to claim on private sector.

Monthly Trading Statistics



* For the period (January-31, 2024) - (February-28, 2024)



Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Poush-79	Mangsir-80	Poush-80	Falgun 4	Falgun 11	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	8.83	2.20	2.44	3.03	2.91	-6.39	0.24	-0.12
Wt.Avg 91 Days TB rate (%)	10.89	3.53	3.57	3.20	3.14	-7.32	0.04	-0.06
Wt.Avg 364 Days TB rate (%)	11.92	4.64	4.38	4.07	4.07	-7.54	-0.26	0.00
Wt. Avg Interbank Rate (%)	7.48	2.04	2.83	3.01	2.90	-4.65	0.79	-0.11
CapEx (In Billion NPR)	53.45	36.06	49.23	65.17	68.88	-4.22	13.17	3.71

B. Money Market Indicators

Particulars	28-Feb-24	28-Jan-24	% Change	Month High	Month Low
SLF Rate	6.50%	6.50%	0.00%	6.50%	6.50%
Market Excess Liquidity (NPR in Billion)	61.00	15.00	306.67%	74.47	-5.52

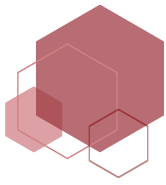
C. BFI Statistics

Description	Value As On					Change		
	Poush-79	Mangsir-80	Poush-80	Falgun 4	Falgun 11	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	8.51	7.62	7.32	7.32	7.32	-1.19	-0.30	0.00
Wt. Avg Lending Rate (%)	12.79	11.85	11.38	11.38	11.38	-1.41	-0.47	0.00
Base Rate (%)	10.91	9.64	9.35	9.35	9.35	-1.56	-0.29	0.00
CD Ratio (%)	86.61	79.90	80.26	80.24	80.19	-6.35	0.36	-0.05
Fixed Deposits/Total Deposits (%)	59.67	60.24	59.51	59.51	59.51	-0.16	-0.73	0.00
Total Liquid Assets/Total Deposits (%)	24.29	27.36	27.11	27.11	27.11	2.82	-0.25	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	Falgun 8	500.00	0.00	19	66	5.64	500.00	2.64	2.99	2.91
91 Days	Falgun 8	723.32	0.00	21	75	3.92	723.32	2.87	3.20	3.14
182 Days	Magh 23	700.00	0.00	21	84	4.15	700.00	3.19	3.60	3.54
364 Days	Magh 23	500.00	0.00	18	77	5.60	500.00	3.94	4.14	4.07

*Figures are in Millions NPR

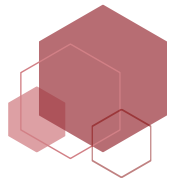


Sectoral Movement

Index	Magh 17	Falgun 16	Change
NEPSE	2,097.93	2,000.77	-4.63%
Manufacturing & Processing	5,855.33	6,711.91	14.63%
Finance Company	1,775.81	1,800.92	1.41%
Trading	2,841.67	2,880.38	1.36%
Development Bank	4,021.58	3,882.84	-3.45%
Non Life Insurance	10,844.03	10,359.38	-4.47%
Hydropower	2,653.43	2,525.85	-4.81%
Mutual Fund	18.89	17.98	-4.82%
Investment	79.98	75.89	-5.11%
Microfinance	3,731.19	3,534.35	-5.28%
Life Insurance	10,640.19	9,992.31	-6.09%
Hotels & Tourism	5,474.58	5,132.40	-6.25%
Others	1,819.33	1,698.94	-6.62%
Commercial Bank	1,153.82	1,070.58	-7.21%

Major Movers

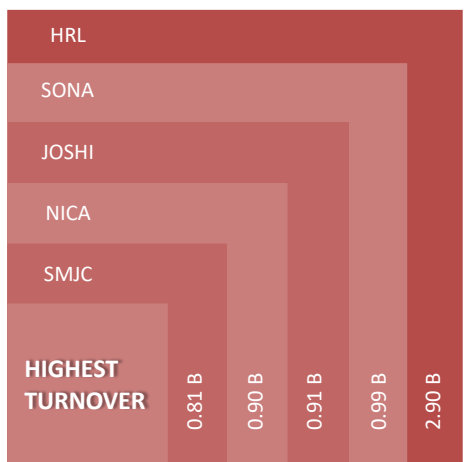
BNL	208.81%	GHL	-19.55%
SAMAJ	201.44%	GLH	-19.16%
JOSHI	52.60%	MSHL	-18.84%
BNT	34.54%	SHEL	-18.19%
CKHL	29.61%	MHL	-16.13%



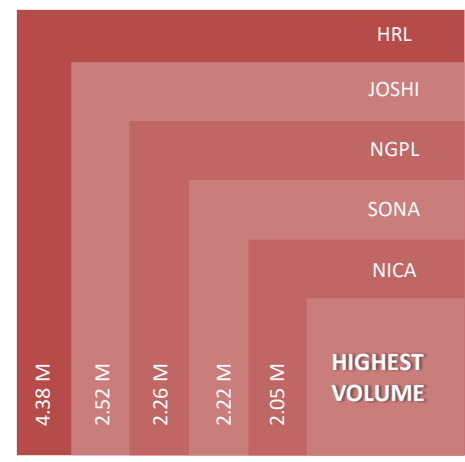
Sectoral Divergence-Turnover

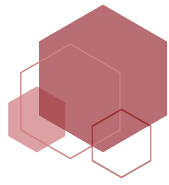
Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	3.20 B	3.17 B	-0.83%
Others	0.24 B	0.50 B	108.65%
Finance	0.12 B	0.18 B	58.72%
Hydro Power	1.10 B	1.67 B	52.16%
Investment	0.22 B	0.24 B	9.98%
Commercial Banks	0.27 B	0.29 B	6.18%
Development Banks	0.14 B	0.14 B	-0.25%
Microfinance	0.13 B	0.13 B	-2.74%
Hotels And Tourism	0.10 B	0.09 B	-3.28%
Manufacturing And Processing	0.27 B	0.24 B	-11.15%
Tradings	0.01 B	0.01 B	-12.80%
Non Life Insurance	0.20 B	0.16 B	-16.81%
Life Insurance	0.30 B	0.23 B	-22.63%

Highest Turnover



Highest Volume





NEPSE Outlook

A. Current Overview

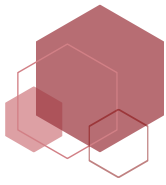


On February 29, 2024, the flagship NEPSE index concluded at 1,972.09 points, with a monthly average turnover reaching NPR 3.09 billion for February, 2024. This marks a significant decrease compared to January's average turnover of NPR 5.36 billion.

Presently, the Relative Strength Index (RSI) stands at 32.47 points, indicating its proximity to the oversold zone. A bearish crossover has been observed based on the 20-day and 50-day Simple Moving Average (MA).

The Moving Average Convergence and Divergence (MACD) indicator suggests a bearish trend, with a bearish crossover between the MACD line and the signal line. Both indicator lines are positioned below the baseline, reflecting negative market sentiment.

Looking forward, the NEPSE index's immediate support levels are identified as (S1) 1,935, (S2) 1,910, and (S3) 1,870, while immediate resistance levels are recognized at (R1) 2,000, (R2) 2,035, and (R3) 2,090. These support and resistance levels provide valuable guidance for investors in making trading decisions.

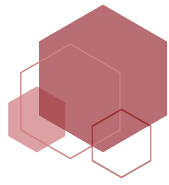


B. Long Term Overview



The chart above illustrates NEPSE's nearly 40% decline from the recent bull-run peak, with consolidation evident around the resistance zone of 2,100 - 2,200. This level has been tested multiple times over the past 1.5 years. The index's future trajectory is crucial for further analysis, particularly given that it has yet to surpass this resistance zone. It reached a recent high of 2,215 on January 17, 2024, following the quarterly monetary policy review by NRB for the 1st quarter of FY 22/23. A breakout from this supply zone would set the next targets for the index at 2,480 and 2,930 levels (psychological resistance zones) as depicted in the chart.

Considering NEPSE's repeated failure to breach the 1,800-level, it's reasonable to view it as the bottom of the ongoing bearish cycle (Historical support zone). However, if the index breaks the demand zone and falls below 1,800 levels, the long-term support zone would be at 1,640 and 1,540 levels (psychological support zones) as indicated in the chart.



SCRIPT ANALYSIS

Sarbottam Cement Limited (Sarbottam)

A. About the Company

Incorporated in October 2010 as private limited company and converted into public limited company in July 2019, Sarbottam Cement Limited (Sarbottam) is involved in the production and selling of clinker and cement. Initially established as a plant with capacity of ~0.4 million MTPA, the capacity currently stands at ~1 million MTPA for clinker as well as grinding. The company's major shareholding is from the Saurabh Group, a prominent business house of Nepal. Its factory is located at Ramnagar VDC-05, Nawalparasi district. The company mainly manufactures OPC and PPC cement under the brand "Sarbottam".

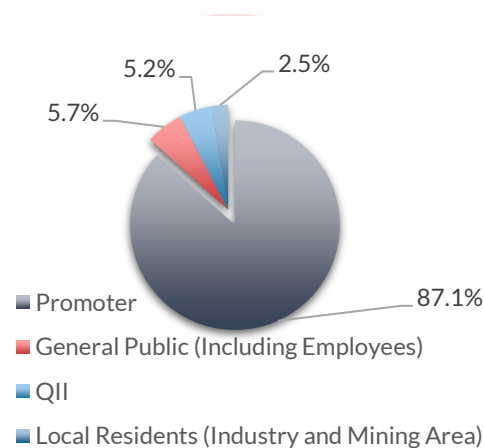
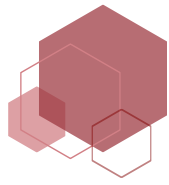


Figure: Shareholding Pattern

Strengths

- Sarbottam Cement's commitment to sustainability through the use of a Vertical Roller Mill (VRM) showcases its dedication to reducing energy consumption and minimizing its carbon footprint. This not only aligns with environmental responsibility but also positions the company favorably in the market with a growing focus on sustainable practices.
- The company's strong brand value, commitment to quality, and innovative technology, as evidenced by the IS mark, allow Sarbottam Cement to explore export opportunities, particularly in neighboring markets like India. This demonstrates the company's potential for growth and market reach beyond its domestic borders.



- The company's forward-looking strategy to diversify its production by focusing on other brands and grades of cement, such as Portland Slag Cement (P.S.C.), indicates adaptability to changing market demands. The existing infrastructure for product diversification positions Sarbottam Cement well for potential shifts in consumer preferences.

Weaknesses:

- The contested liability related to power charges and the ongoing legal case pose a potential risk to the company's liquidity. The outcome of this legal matter could have financial implications, impacting Sarbottam Cement's financial stability and operational capabilities.
- The company acknowledges the impact of rising coal prices on its revenue, indicating sensitivity to external market conditions. Factors like the piling of inventory before the monsoon season and the cyclical nature of the cement industry create uncertainties in cash cycles and demand projections, making the company susceptible to market fluctuations.
- Sarbottam Cement faces intense competition from numerous cement and clinker manufacturing units, coupled with the cyclical nature and seasonal demand in the industry. This poses challenges in terms of cash flow management, demand forecasting, and maintaining a competitive edge amidst a crowded market.

I. Comparative Annual Performance Visualizations

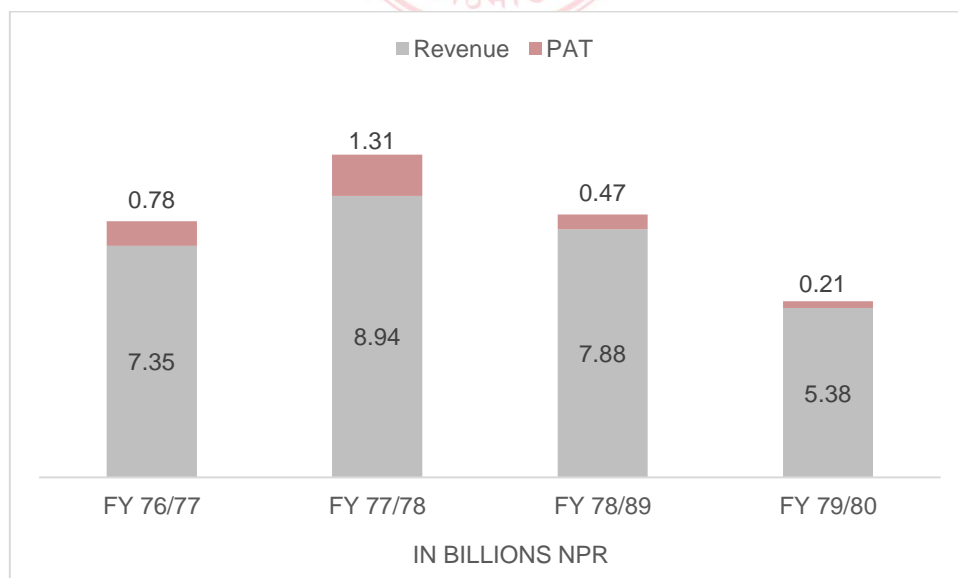


Figure: Annual Comparison of Revenue and Profit after Tax

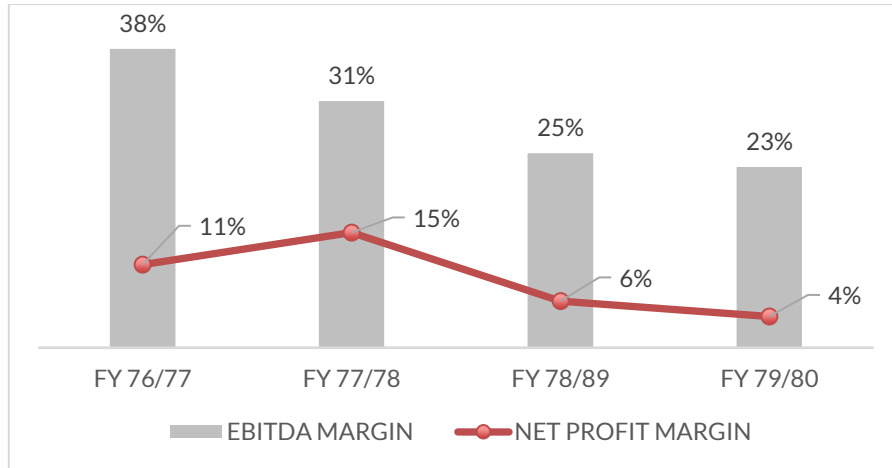
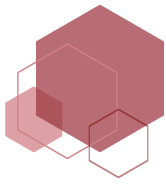


Figure: Annual comparison of EBITDA Margin and Net Profit Margin Income

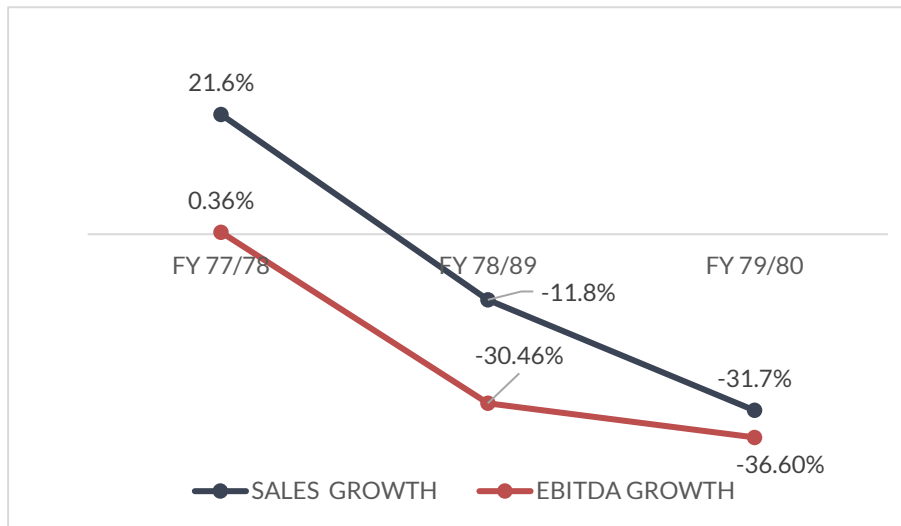


Figure: Annual Comparison of Sales & EBITDA Growth (%)

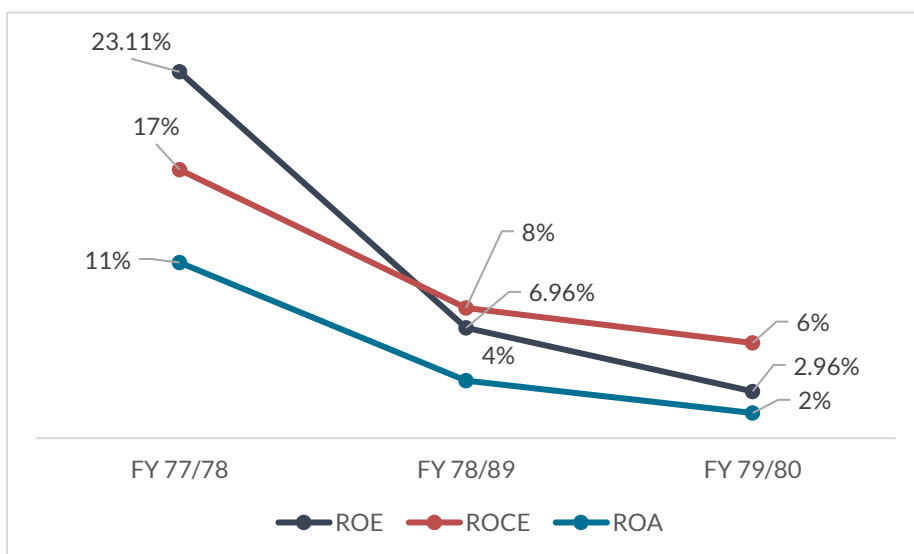
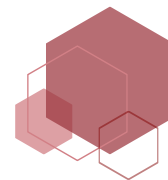


Figure: Annual Comparison of Return on Capital employed, Return on Asset and Return on Equity



Comparable Company Analysis

Name	Market Cap in 000'	Debt / Equity	EV/ EBITDA	Debt/ EBITDA	EV / Ton	Cost / Ton	EBITDA/ Ton
Sarbottam	-	0.55	-	4.60	-	3,781.90	883.44
Shivam	25,135,000.00	0.11	29.08	1.09	22.29	5,556.01	766.61
Sonapur	8,714,076.69	2.52	44.02	19.13	38.05	3,254.65	864.38
Ghorahi	23,340,873.88	1.07	40.62	13.40	34.42	3,604.41	847.47
Average	19,063,316.86	1.06	37.91	9.55	31.59	4,049.24	840.48
Median	23,340,873.88	0.81	40.62	9.00	34.42	3,693.16	855.93

Figure: Comparable Company Analysis based on FY 2079/80

Note - Given the company's current initial public offering (IPO), its market capitalization and enterprise value (EV) are excluded from this analysis

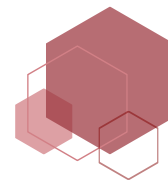
Comparable Company Summary

According to a comparable company analysis, Sarbottam displays a debt/equity ratio of 0.55 times, below the industry average of 1.06 times. This suggests effective management of borrowings over time. Additionally, the company shows efficiency with a lower manufacturing cost per ton of NPR 3,781.90. Furthermore, Sarbottam exhibits an above-average EBITDA per ton, reaching NPR 883.44.

DuPont Analysis

Particulars	Specifics	FY 77/78	FY 78/79	FY 79/80
Tax Burden	Net Profit / Pre-Tax Income	0.87x	0.83x	0.80x
Asset Turnover	Revenue / Avg. Total Assets	0.79x	0.64x	0.41x
Financial Leverage	Average Total Assets / Avg. Equity	1.99x	1.84x	1.82x
Interest Burden	Pre - tax Income/ Operating Income	0.88x	0.63x	0.40x
Operating Margin	Operating income/ Revenue	0.19x	0.11x	0.13x
Final Return on Equity		23.11%	6.96%	2.96%

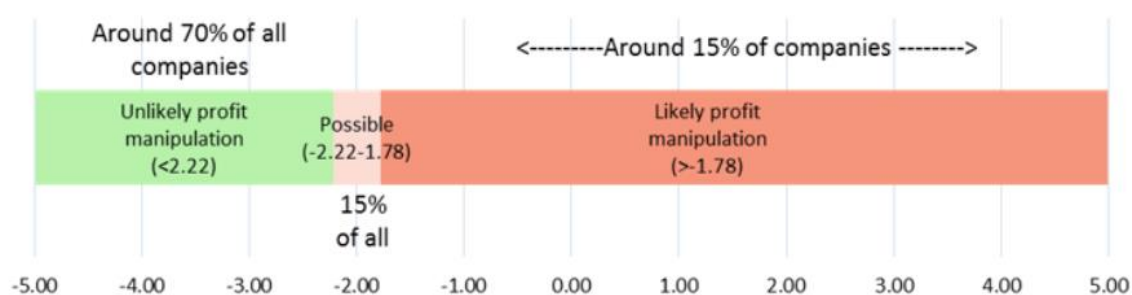
Figure: DuPont Analysis



DuPont Summary

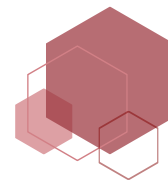
The ROE of Sarbottam Cement Ltd. experienced a notable decline from 23.11% to 2.96% between FY 77/78 and FY 79/80. This decrease in ROE can be attributed to a significant drop in asset efficiency, which decreased by over 47%, declining from 0.79x in FY 77/78 to 0.41x in FY 79/80. Additionally, both the Interest Margin and Operating Margin witnessed a decline of more than 30% during the three-year period.

Beneish Model Analysis



Particulars	FY 77/78	FY 78/79	FY 79/80
Days Sales in Receivable Index	0.78	1.33	1.69
Gross Margin Index	1.16	1.23	1.06
Asset Quality Index	0.00	2.58	2.42
Sales Growth Index	1.22	0.88	0.68
Depreciation Index	1.01	0.82	3.01
SGA Index	0.72	0.98	1.03
Leverage Index	0.81	1.01	0.95
Total Accruals to Total Assets	(0.03)	0.03	0.11
M Score	(2.86)	(1.40)	(0.78)

Figure: Beneish Model



Altman Z-Score Analysis

Z'-SCORE ABOVE 2.9 - The company is deemed *Safe* based on the given financial figures only.
 Z'-SCORE BETWEEN 1.23 and 2.9 - On Alert. This is the grey zone and one should exercise *Caution*.
 Z'-SCORE BELOW 1.23 - Probability of *Financial Embarassment* is very High.

Ratio	Weight	76/77	%	77/78	%	78/79	%	79/80	%
EBIT / Total Assets	3.1	0.1	43%	0.1	45%	0.1	21	0.1	16
Net Sales /Total assets	1.0	0.7	68%	0.8	75%	0.6	61	0.4	40
Book Value of Equity /Total Liabilities	0.4	0.8	35%	1.2	51%	1.2	49	1.3	53
Working Capital / Total assets	0.7	0.0	-2%	-0.1	-4%	0.0	-1	-0.1	-4
Retained Earnings /Total Assets	0.8	0.3	23%	0.2	5%	0.2	1	0.2	0
Altman Z-Score			1.66		1.72		1.33		1.06

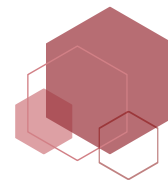
Altman Z-Score Summary

The Altman Z score for the four-year average from 2076/77 to 2079/80, which is 1.44, suggests that the company is in a grey area, indicating investors should exercise caution.

Debtor Analysis

Particulars	FY 76/77	FY 77/78	FY 78/79	FY 79/80	Average	Median
Revenue(in lakh)	73.53	89.38	78.81	53.80	-	-
Revenue Growth%	-	21.6%	-11.8%	-31.7%	-7.33%	11.82%
Receivables(in lakh)	13.42	12.68	14.83	17.08	-	-
Receivables Growth %	-	-5.5%	17.0%	15.2%	8.88%	15.18%
Receivables as a % of Revenue	18.2%	14.2%	18.8%	31.8%	20.75%	18.53%
Total Assets(in lakh)	107.59	118.24	128.62	13.42	-	-
Receivables % of Total Assets	12.5%	10.7%	11.5%	12.7%	11.86%	12.00%
Receivables Days	67days	52days	69days	116days	76days	68days
Receivables Turnover Ratio	6x	6x	5x	3x	5x	5x

Figure: Debtor Analysis



Debtor Analysis Summary

The growth rates for revenue and receivables of Sarbottam are not aligned over the four-year period from FY 76/77 to FY 79/80. While revenue is decreasing at a rate of -7.33%, trade receivables are growing at a higher rate of 8.88%. The Receivables Turnover Ratio has consistently declined from 6x in FY 76/77 to 3x in FY 79/80. Notably, the Receivables % of Revenue has increased from 18.2% to 31.8% over the four-year period, possibly influenced by conditions within the cement industry.

Cash Conversion Cycle

Particulars	FY 76/77	FY 77/78	FY 78/79	FY 79/80
Inventory Days	100	90	177	234
Days Receivable	67	52	69	116
Days Payable	32	33	37	43
Cash Conversion Cycle	135	110	209	307

Figure: Cash Conversion Cycle of Sarbottam Cement

The cash conversion cycle (CCC) is a critical financial metric that measures the average number of days a company takes to turn its investments in inventory and other resources into cash flows from sales, ultimately cycling back to paying suppliers for those resources. It reflects the company's efficiency in managing its working capital and is composed of three key elements:

Days Inventory Outstanding (DIO): The average number of days a company holds inventory before selling it.

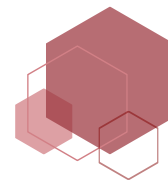
Days Receivable Outstanding (DRO): The average number of days it takes to collect payment after a sale.

Days Payable Outstanding (DPO): The average number of days a company takes to pay its suppliers for purchased goods or services.

In formula,

$$CCC = \text{Inventory Days} + \text{Days Receivable} - \text{Days Payable}$$

The shorter the cash cycle, the better, as it indicates less time that cash is bound in accounts receivable or inventory, which allows them to invest in other areas or pay off



debts quicker. Conversely, a longer cash conversion cycle may indicate inefficiencies in inventory management, sales collection processes, or payment practices with suppliers.

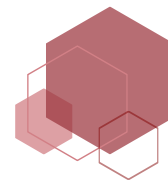
Analyzing the cash conversion cycle can help companies identify areas where they can improve their working capital management to optimize cash flow and overall financial health.

The company's cash conversion cycle has prolonged primarily due to a combination of the economic slowdown, which has led to declining cement sales, and an increase in receivable days as consumers face liquidity constraints

II. Key Variables used for Valuation and Assumptions:

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) = 3.93%
2. Discount rate using Weighted Average Cost of Capital (WACC):
 - Cost of Equity (Ke) = $R_f + \beta * (R_m - R_f)$
 - Cost of Debt (Kd) = 10.50%
 - Therefore, WACC is equal to, Cost of Equity (Ke) = $5.64\% + 1.59 * (11.42\% - 5.64\%) = 12.95\%$

Specifics	Value	Remarks
Adjusted Beta (β)	1.59	Assumption - The raw beta will move towards the market beta of 1 over time
Market Return (Rm)	11.21%	CAGR since FY 2001/02 end to FY 2022/23 end
Risk Free Rate (Rf)	5.56%	Latest Development Bond Rate (2088 "JA") adjusted for 6% tax
Cost of Equity (Ke)	14.58%	As per CAPM Model
Cost of Debt (Kd)	10.50%	As per IPO Prospectus
Tax Rate of the Company	15.00%	As per IPO Prospectus
WACC adjusted for tax	12.89%	Discount Rate for Valuation
Terminal Value Growth Rate	3.93%	Average of the Last 12 years GDP growth rate of Nepal and Projected GDP growth rate of Nepal for this FY by the World Bank



B. Stock Valuation

The final average valuation of Sarbottam based on the Discounted Cash Flow (DCF) Approach has been computed as NPR. 322.37, which has been tabulated below:

DCF Valuation	Valuation Price(NPR)
Bear Case	268.87
Base Case	327.09
Bull Case	371.15
Average	322.37

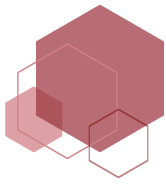
C. Conclusion

Following the valuation process, the company's final average value is NPR 322.37, which is slightly overvalued by 10.67% of the IPO price of NPR 360.90 per share. Sarbottam Cement Limited, established in October 2010 as a private limited company and later converted to a public limited company in July 2019, operates in Nepal's cement industry. The company has faced challenges stemming from the cyclical nature of the cement sector, influenced by fluctuations in the GDP growth rate. Despite a downturn impacting profitability figures in the overall cement industry, Sarbottam Cement continues its commitment to sustainability, evident in its use of a Vertical Roller Mill (VRM) to reduce energy consumption and minimize its carbon footprint.

With an initial plant capacity of approximately 0.4 million MTPA, Sarbottam's current capacity has expanded to around 1 million MTPA for both clinker and grinding. The Saurabh Group holds a major share in the company, solidifying its position in Nepal's business landscape. Sarbottam mainly produces OPC and PPC cement under its brand "Sarbottam."

The company's strengths lie in its dedication to sustainability, strong brand value, commitment to quality, and innovative technology, exemplified by the IS mark. These factors position Sarbottam Cement favorably in the market, allowing it to explore export opportunities, especially in neighboring markets like India, showcasing potential for growth beyond domestic borders.

However, Sarbottam Cement is confronted with various vulnerabilities. Contested liabilities concerning power charges and ongoing legal disputes pose significant risks to



the company's liquidity, potentially impacting its stability and operational prowess. Furthermore, its sensitivity to rising coal prices, compounded by inventory management problems prior to the monsoon season, creates more uncertainties. Furthermore, the inherent cyclicity of the cement industry, tied closely to the nation's economic conditions, amplifies fluctuations in cash cycles and demand forecasts, rendering the company vulnerable to market volatilities.

In conclusion, Sarbottam Cement's strategic strengths and efforts to diversify production position it for potential growth. However, effective management of contested liabilities, market sensitivities, and intense competition are critical for sustaining financial stability and competitiveness in a dynamic industry.

ISSUE OF THE MONTH

How Belief Preservation Affects Investment Decisions?

“The ability to focus attention on important things is a defining characteristic of intelligence.” – Robert J. Shiller

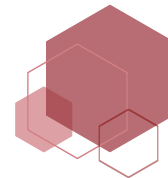
A. What is Belief Preservation

Human behavior is determined by conscious and unconscious decisions, which can be influenced by behavioral biases. People tend to make judgments based on preconceived notions or, more problematically, on feelings alone, neglecting many crucial facts. This is a risky way of thinking and investing. Belief Preservation, which refers to an individual's inclination to stick to their previous belief even after hearing fresh evidence that contradict. It is one of the major cognitive biases affecting proper decision making.

One example of this bias in financial markets is when investors naturally think that excellent firms make good investments. However, this is not always the case. A corporation may be outstanding in their own industry but a bad judgment of other industries. Another example is analysts projecting future results based on past performance. Just because a firm has had rapid growth over the last five years does not guarantee that trend will continue permanently.

B. Types of Belief Preservation Errors

There are different types of belief preservation errors that investors can make which leads to poor investment decision. This includes:



I. Representativeness

Representativeness is a cognitive shortcut that substitutes a probability question with a resemblance inquiry. In other words, rather than analyzing the objective probability of a situation occurring, people choose to analyze how closely it relates to a comparable question. The representativeness bias lends credence to the idea that humans fail to appropriately analyze and apply probability in their decision-making. Investors may miss patterns or extrapolate data incorrectly because it does not suit their existing assumptions.

The conjunction error is the most typical error caused by this bias. When the likelihood of A&B occurring is deemed to be greater than the probability of A. For example, after reading a brief character description of someone who lacked imagination but was extremely analytical, people thought such a figure was more likely to be both an investor and a guitarist than simply a guitarist.

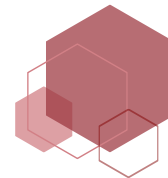
They failed to see that an investor who plays guitar is a subset of everyone who plays guitar. When reading crucial indications in the markets, investors may confront the conjunction fallacy. Bringing this issue to people's attention does not prevent them from making the same mistake again. People are prone to committing simple calculating errors, notwithstanding their understanding of the basic calculating error. What's more, specialists who make high-stakes choices commit the conjunction error as well. Almost all economists, analysts, and expert statisticians failed to spot nested situations, demonstrating how difficult it may be to prevent this error.

II. Conservatism

Conservatism refers to the propensity to not alter one's beliefs appropriately when confronted with fresh data. In other words, it happens when a person overestimates their existing knowledge while underestimating new information. Even though there is no rational basis for this assumption, the original knowledge is perceived to be more relevant and valuable than the new information. Conservatism in finance can lead to investors underreacting to company events such as earnings releases, dividends, and stock splits.

III. Confirmation Bias

Confirmation bias refers to the propensity to seek, interpret, favor, and recall evidence that confirms one's previous ideas. People, for example, have a tendency to selectively acquire or recall information, or to interpret confusing data in a way that supports their previous perspective. Confirmation bias is also seen when people intentionally seek out and give more weight to evidence that confirms what they already believe, while ignoring or underweighting material that contradicts it. In finance, confirmation bias can



cause investors to dismiss data that suggests their strategy may lose money, leading to overconfidence.

IV. Hindsight Bias

Hindsight bias occurs when prior events appear to be more prominent than they actually were, enabling an individual to assume that the occurrences were predicted even when there was no objective foundation for doing so. Essentially, this bias happens when a person feels they "knew it all along" after seeing the conclusion of an unusual occurrence.

V. Illusion of Control

The illusion of control happens when individuals overvalue their capacity to influence events or outcomes, particularly random ones, despite the fact that such a belief is unfounded. This bias in finance may cause investors to overestimate risks and struggle to respond to negative events.

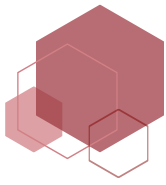
C. Dealing with Belief Preservation

Belief Preservation is difficult to avoid, but there are certain steps you may take to mitigate its consequences. This can help you make more correct decisions in your daily life; they include:

- **Recognizing belief preservation:** When people acknowledge that they are using the belief preservation, they are more likely to correct themselves and produce more accurate evaluations.
- **Checking your judgments for bias:** Take a few moments before making judgements about individuals or circumstances to evaluate how prejudice may be impacting your choices.
- **Using logic to solve difficulties:** When dealing with challenges, attempt to think things out rationally. It may also be advantageous to understand more about critical thinking abilities and logical fallacies.
- **Requesting comments from others:** It might be difficult to identify the application of representativeness in your own thinking, so getting feedback from others can be useful. Explain your reasons and encourage them to check for any biases.

One Investor specific mitigation technique to mitigate belief preservation is keeping an investment journal: This helps in writing down investment rationale and then comparing it to the consequences, whether positive or negative which can be used to evaluate one's decision making and improve on it. Thus, understanding that we have this bias and making decisions logically can help us make better investment decisions.

**This article was previously published in the Magh 2079 edition of The Pulse.*



Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
AHPC	RIGHT	18,679,626(O)	2024/02/29 AD 2080/11/17 BS	2024/03/20 AD 2080/12/07 BS	Muktinath Capital
LSML	RIGHT	245,037(O)	2024/02/27 AD 2080/11/15 BS	2024/03/19 AD 2080/12/06 BS	Linch Stock Market
SHEL	RIGHT	14,500,000(O)	2024/02/14 AD 2080/11/02 BS	2024/03/05 AD 2080/11/22 BS	Kumari Capital
NICAP	AUCTION	513,325(P)	2024/02/28 AD 2080/11/16 BS	2024/03/10 AD 2080/11/27 BS	NIMB Ace Capital
KSBBLP	AUCTION	309,892(P)	2024/02/27 AD 2080/11/15 BS	2024/03/05 AD 2080/11/22 BS	Prabhu Capital
NRICP	AUCTION	3,587,434 (P)	2024/02/20 AD 2080/11/08 BS	2024/03/25 AD 2080/12/12 BS	Global IME Capital

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Himalayan Capital Limited
Karmachari Sanchaya Kosh Bhawan,
Thamel, Kathmandu
Contact: 01-5358345, 5363147
www.himalayancapital.com
info@himalayancapital.com