

Temperature Check.

It seems like no one has anything good to say about where our economy is or where we are heading soon. There are constant questions about ‘when the liquidity/credit crisis will ease?’ and the usual worry and explanation of slowing remittances, import/export imbalance, and the resulting current account deficit (running out of dollars).

Besides the distraction of the local election, economic news in social media seems to be largely revolving around whether we are the next ‘Sri Lanka’ and every business/political leader seems to have the solution to prevent us from becoming the next ‘Sri Lanka’.

Interest rates have steadily risen (would’ve been way swifter if it wasn’t for the NRB guided ‘gentlemen’s agreement’) and predictably markets have fallen, down ~30% from its high of 3200 about a year ago, and real estate transactions have slowed down (Baisakh was the slowest month in over a year). Credit disbursement is pretty much at a standstill, or in fact declining, and anyone who can get a big fixed-deposit account are superstars in their respective banks. Does it feel like a crash yet?

‘Be fearful when others are greedy and greedy when others are fearful’ – Warren Buffett
‘The time to buy is when there is blood on the streets’ – Nathan Rothschild

So where do we stand? Is there the proverbial blood on the streets yet? Is it time to be greedy?

Market indicators (our position in the PE cycle, the Market Cap to GDP Cycle) are close to historical averages. The big contributors in the ~30% drop in NEPSE seem to be largely because of obscenely valued Hydro, Insurance, and certain Finance stocks falling back to earth. Contrary to what the media and the ‘gurus’ analysis (largely blaming govt. policies) say, the intrinsic value of companies has a funny way of manifesting itself in the market prices despite the usual short-term gyrations. Date and hard facts, time and again, proves that fundamental value is what drives the market prices, even in Nepal, and NOT bonus shares, or ‘big players’, or ‘halla’, or the any ‘impending’ crisis.

“In the short run, the market is a voting machine, but in the long run, it is a weighing machine”
– Benjamin Graham

The prices are ‘correcting’ themselves, as they always do. It doesn’t feel like a crash yet and panic is certainly not the current state of the market. However, pessimism seems to be the mood of the day. We do not predict the direction of the markets, nor do we try and time them to the T. Valuations indicate that prices are fair and as long we are optimistic in the long-term economic progress of our nation, despite our flaws and shortcomings, it is as good a time to enter the market as any. It is not a ‘steal’ yet, but we are certainly not catching falling knives.

Yurop Shrestha
Chairman, Snowball Capital