



# WHAT IS CONTRA INVESTING?

**THE EQUITY  
COMPASS**

EDITION  
**10**

*Understanding opportunities hidden in market pessimism*

Consider a buyer looking at a house in a good neighbourhood.

The location is attractive, the structure is sound, and the long-term potential is visible. But the house has been ignored by most buyers because it looks neglected and needs repairs.

Many buyers may focus only on what is wrong today, overlooking the gap between the short term premium demanded by the market and the asset's long term potential. A careful buyer would look deeper. Are the issues temporary and fixable? Is the location still valuable? Does the current lack of interest reflect permanent damage or excessive pessimism?

Contra investing follows a similar idea. It focuses on opportunities where market sentiment may have become excessively negative.

*The opportunity exists only when the market's pessimism may be greater than the actual deterioration in long-term prospects.*



## WHAT IS CONTRA?

Contra means taking a view that goes against the prevailing market opinion.

In investing, this does not mean opposing the market for the sake of being different. It means examining areas that investors may currently be avoiding and assessing whether the negative view has become excessive.

A company, sector, or theme may become unpopular for several reasons, including weak recent performance, temporary business pressure, adverse news flow, industry cyclicalities, or broader risk aversion.

*The central question is not "What is everyone avoiding?" but "Is the market avoiding it for the right reasons, or overreacting to negative sentiment?"*



## WHAT IS CONTRA INVESTING?

Contra investing is an investment approach that focuses on opportunities where market sentiment may have turned too negative compared with the underlying business reality.

The approach is based on the belief that markets may sometimes move from concern to overreaction. When this happens, businesses or sectors may trade at valuations that reflect fear or neglect rather than a balanced view of their long-term potential.

Contra investors generally look for a gap between perception and reality. They may consider out-of-favour companies or sectors if there are signs that the negative factors may be temporary and the long-term outlook may improve.

*Contra investing focuses on situations where market perception may be more negative than underlying business reality.*

**Name of MF - Bajaj Finserv Mutual Fund | Registration no. - MF/078/23/04**



## WHAT CONTRA INVESTORS MAY LOOK FOR

Contra investors may evaluate whether current market pessimism is justified by the long-term fundamentals of the business or sector.

INDICATOR	WHAT IT MAY SUGGEST
Negative market sentiment	Investors may be overly pessimistic
Out-of-favour sectors or themes	Potential opportunities may be overlooked
Temporary business challenges	Current issues may not be permanent
Improving fundamentals	There may be early signs of recovery
Valuation comfort	The downside may already reflect part of the concern
Gap between perception and business outlook	Market sentiment may differ from long-term prospects



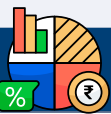
## WHY CAN CONTRA OPPORTUNITIES EMERGE?

Contra opportunities may emerge when investors become too focused on near-term discomfort and stop distinguishing between temporary pressure and permanent weakness.

This may happen when a sector is going through a downcycle, a company is facing short-term earnings pressure, an industry is affected by policy or demand concerns, or a theme has lost investor attention after a period of weak performance.

Sometimes the market may be justified in remaining cautious because the business is structurally challenged, the sector outlook has weakened, or recovery may take longer than expected.

*Going against the crowd requires discipline because the crowd is not always wrong.*



## VALUE VS CONTRA: HOW ARE THEY DIFFERENT?

Value and Contra investing may look similar because both seek opportunities that the broader market may be missing. However, they are not the same.

PARAMETER	VALUE INVESTING	CONTRA INVESTING
Primary focus	Valuation	Market sentiment
Core question	Is the stock trading below its estimated worth?	Has the market become too pessimistic?
Typical trigger	Price appears lower than intrinsic value	Sector, theme, or company is out of favour
Main assessment	Fundamentals, valuation, cash flows, balance sheet	Sentiment, recovery potential, change in perception
Key risk	A cheap stock may remain cheap or become a value trap	The negative market view may be correct
Simple distinction	Gap between price and value	Gap between perception and reality

*Value investing focuses on what a business may be worth. Contra investing focuses on what the market may be getting wrong.*



## HOW DO MUTUAL FUNDS APPLY CONTRA INVESTING?

In mutual funds, contra investing is applied through a structured research and portfolio construction process.

Fund managers may evaluate companies, sectors, or themes that are currently out of favour and assess whether the negative market view is justified. They may consider factors such as valuations, earnings trends, balance sheet strength, sector outlook, business quality, management capability, liquidity, and signs of potential recovery.

The objective is not to invest against the market simply for the sake of it, but to identify situations where pessimism may have become excessive relative to the long-term outlook.

***Contra investing focuses on what the market may be getting wrong, while still requiring careful assessment of what could go right.***

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**