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Manage your risk, choose stocks carefully, but stay invested: Devina Mehra

Synopsis
Devina Mehra advises investors to manage risks and stay invested amid market fears, as returns tend to be higher during uncertainty. Emphasizing large, steady portfolios over small caps, she highlights the cyclical nature of market returns and the importance of staying the course, even as Indian markets confront tariff and geopolitical challenges.

Devina Mehra, Founder & CMD, First Global, says when there is fear, anxiety and uncertainty, that is when the next period returns are above normal. When everything looks very good and as was the case in 2024, when people were saying, "I am conservative and I want only 35% compounding", that is when the next period returns are below normal. So, manage your risk, choose stocks carefully, but it is time to be invested.

Firstly, congratulations once again, what a resounding success your book has been – Money, Myths and Mantras. It has gone for a reprint.

Devina Mehra: Thank you. Yes, it has been very gratifying. The book got to number one overall on Amazon and then went into a reprint within weeks of its launching. A lot of people told me that bookshops in their city had run out of copies. So that has been very gratifying. Also, for today, the markets for once, are not giving palpitations to people.

Let us talk about a theme from your books. Where is there money to be made in this market? Where do you think there is still the myth that this sector is going to do well, but you think fundamentally it is shaken off and it is not going to perform?

Devina Mehra: My advice actually has not changed in the last few months. It is not as if after the market corrected, I started saying something different. I retweeted my July tweet where I had said get out of small and micro caps and very fashionable sectors and get into a large steady portfolio, so that pretty much has remained the same.

Of course, now, there has been a carnage on some stocks. This is not the latest data, but about 10 days ago, I had looked at the data. And at that time, I had seen that while the index fall did not seem quite so substantial, 65% stocks were down 25% to 50% and another 19-20% were down 50% plus. So, 85% of the stocks were actually down more than 25%, which was not really getting captured in the index data. That is why the blood on the street in some fashion has been a lot worse than what appeared when you just looked at the index because the index movement is nothing out of line.

If you go back 18-19 years, every year the index corrects in double digits barring three or four years and one of those years was 2023. In a sense, after two years, we had a double-digit correction, which should not have caused so much anguish. What people forget, and again, this is data I have been pointing out for a very long time – the smallcap movements are always very dramatic. In 2008-09, the smallcap index fell nearly 80%, and the index came back in 2016-17, but that was theoretical because that index churns 18-20% every year, so eight years later, it has a completely different set of stocks.

There was another mad bull run in '17-18 and then that index again corrected two thirds. Last year, when I was telling people that, I was accused of being too conservative. Now the thing is there for everyone to see because the problem in smallcaps is that risk management is not possible. When they fall, they just fall like a stone. You cannot get out, you cannot hedge because there is no liquid hedge on smallcaps. But a lot of the pain is behind us.

But remember, after every bull run and then a correction or a fall, in the next bull run the same stocks do not go up. So, I would still ask people to be in a steady portfolio. Below that, it is a very stock specific market. So, grit your teeth and take the losses even if you are down 30%, 40%, or 50% on certain stocks or more because the stocks may not come back at all and you do not need to make the money back in that same stock. I always say the market has zero interest in your purchase price. If a stock or a strategy or let us say a thematic fund has not worked out, it might still be a good idea to book losses and get into a better portfolio.

You were saying earlier that the same leaders won't make a comeback. That said, do you think the pain is behind us and are we now ready and geared up to make a significant comeback? Do you think the selling is done to begin with?

Devina Mehra: I always look at two categories. In the largecap category, I do not see the risk of a big downside from here. But I would say the risk in sitting it out now is missing out on an up move. So, for some time, I have been saying that if you were waiting for a correction to invest, have you invested because this is for whatever is your equity allocation, it is time to be invested.

I always say never have 100% in equity, because equity is money you should not need for eight to ten years, but this is definitely time to be invested in equity whatever be your equity allocation and this is data I probably would have given in one of my earlier interviews on your channel, that in 40-45 years, if you miss out on the 10 best days of the market, you miss out on two-thirds of the return.

So, if your Rs 100 had become Rs 75,000 if you miss out on 10 best days, it will only be Rs 25,000. The other thing is that these best days come when there is fear and uncertainty, when people are asking questions like, should I stop my SIP? They do not come in a mad bull run. And also, academic studies across the world. This is not just one or two markets, but every single country where that study has been done, it is that sentiment is a contraindicator.

When there is fear, anxiety, uncertainty, that is when the next period returns are above normal, when everything looks very good and as was the case in 2024, when people were saying, I am conservative and I want only 35% compounding, that is when the next period returns are below normal. So that is the nature of the game. So, manage your risk, choose stocks carefully, but it is time to be invested.

A lot of concerns related to the tariff concerns were also trickling in, at least for the Indian market. On a YTD basis, Indian markets have underperformed the rest of the world. But is the fear and uncertainty around the tariff concern overdone now? What is your view on this?

Devina Mehra: We look very narrowly at the Indian market, probably. But Trump is a wild card. Much before he took office, when he was elected in November, I had done a piece for The Economic Times, where I had said that, all the people who are predicting what would happen to markets or inflation or anything or geopolitics across the world once Trump takes over, must be drinking something because this is a guy who is so unpredictable. A lot of what he said in the campaign was self-contradictory, that you do not even know what he would do.

So, who can say what the second and third order effects will be. Plus, the Trump effect is compounded by Musk. As I had written, if you want to increase uncertainty, there is no better combination than Trump with Musk. See, India is not a big exporter overall. Pharma is where the tariffs have been talked about. On one hand, Trump is saying that costs for the average American are very high and healthcare costs are definitely extremely high in the US. The US has the highest spend on healthcare and the worst outcome among all developed nations, more or less.

India is a relatively inexpensive supplier of drugs. He is using tariffs as a negotiating technique. India has given in on most of the things he has asked for anyway. There are only one or two sectors which are anyway vulnerable to the US. Though, I have to say that we are overweight in both IT and pharma in our PMS. Obviously, we are making the call that this is not going to be a very long term or very damaging concern. What Trump does to the world order is the part I am concerned about.