FORTUNE
INDIA

Devina Mehra on the hard truths of investing: 'Equity returns are lumpy, learn to live through the losses'

Devina Mehra, founder & CMD of First Global and author of Money Myths and Mantras, breaks down the art of investing with an ample dose of plainspeak.

By V. KESHAVDEV, **Mar 15, 2025**

Mehra distills her decades of investing wisdom for Fortune India, answering questions on why just saving isn’t enough.

Investing is often shrouded in myths, quick-fix formulas, and herd mentality, but for those who truly seek financial success, understanding the fundamental principles of investing is non-negotiable, and who better to break it down than one of the sharpest minds in investing, someone who has built a career on decoding markets and challenging conventional wisdom. Devina Mehra, founder & CMD of First Global, in her latest book, Money Myths and Mantras: The Ultimate Investment Guide, doesn’t just offer investment advice but exposes common pitfalls, debunks misleading narratives, and provides a powerful framework for thinking about money and investing. Mehra distills her decades of investing wisdom for Fortune India, answering questions on why just saving isn’t enough and how investing smartly is essential for financial freedom, the importance of asset allocation, and why market corrections, volatility, and losses are the "price of the ticket" for long-term gains.

At the outset, your book does not seem to be aimed at a layperson. Who is the intended audience?

The book is aimed at all people who are interested in investing and all people should be interested in investing!

The reason very simply is that just saving is not enough. If you do not consciously work towards investing your savings somewhat sensibly, if not optimally, most people will find it difficult to reach their financial goals.

In terms of the book, I have tried to start from the basics. These are, however, not the basics of the mechanics - of let us say setting up a demat account which would make it a different sort of book. This is about the basic principles of investing and people have told me that even that teenagers have been able to follow the book which has been gratifying for me. Of course, it does not stop at the beginner level and the whole point is that even if you have spent decades in the market and, I dare say, even if you are an investment professional, it should make you think about aspects of investing you have probably have not thought of.

Unlike many other investment books, it does not give an easy formula for success as that simply doesn't exist!

I would say that it covers the gamut, except for the mechanics for someone who has never invested in mutual funds or equities. It is supposed to make you think about how you are going about your investment journey.

Most people don't even know what they want out of life, let alone what to do with their money. Given our education system, where even highly qualified professionals lack financial literacy, how do you address this gap in your book?

Of course, I cannot bridge the whole gap in the Indian education system in this book and I think the lack of financial literacy is very real!

I am a mathematics graduate, yet, in my view, rather than teach children advanced calculus or other arcane stuff, priority should be basic financial literacy for everyone - including things such as understanding of compound interest, taxation, internal rate of return etc - not just the mechanics of it but how to think about and use these. This is required so that, at the very least, they can compare returns from different instruments "AFTER" netting out the fees being charged by financial intermediaries so that they are not misled by headline numbers and advertisements. The mis-selling of insurance products as investments such as ULIPs (Unit Linked Insurance Plans) come to mind.

I have tried to start from some basics including definition of financial ratios but obviously this is not a finance textbook which is why at the end of the book I have given some tips on the kind of books you can read to enhance your understanding of finance and investing.

How can an average person start thinking about money beyond just earning and spending?

Many financial advisors and even financial platforms have calculators for things such as your goals which may include children's education, buying a home, corpus for retirement etc which give you some idea of how much money you would need when.

Two important things to remember here that inflation will both eat away your earnings and keep increasing the amount of money you need to maintain the same lifestyle every year. Further, remember life expectancy is rising, and you may need to budget for something such as 25-30 years beyond retirement. How you will be able to maintain your lifestyle in this period becomes an important question. Once you do those calculations you will know how much money you need by X number of years and that should become your template for saving and investing.

People often fail to differentiate between savings and investment. Given the surge in demat accounts, is this more about short-term speculation rather than actual investing for wealth creation? Data show aggregate bank deposits at ₹223.34 lakh crore, with ₹198.63 lakh crore in fixed/recurring deposits. This suggests most Indians are savers, not investors, despite earning negative real returns post-inflation. Why do people still prefer the illusion of security over wealth creation?

While I have been in the equity market for decades, I have never ever advised 100% equity allocation for even a young person. I have always been an advocate of asset allocation and that includes fixed income products such as fixed deposits and I will not say that anyone putting money in fixed deposit is making an obvious mistake, or anything of that sort.

The key is to get a sensible asset allocation and not to be at either end of the risk spectrum. The problem comes when people lurch from fixed deposits to day trading, derivative trading or crypto trading. Have a sensible asset allocation across equity, fixed income, gold plus, maybe real estate or crypto.

If you save ₹1 lakh a year and put in the bank at 5.5% interest, it will become ₹77.4 lakhs at the end of 30 years If you don't want to take an outsized risk, then invest it in a multi-asset portfolio compounding at 9.5% pa, it will become ₹1.95 crores. If you have a somewhat higher risk/skewed towards equity portfolio compounding at 12.5%, it will be ₹3 crores at the end of 30 years - so four times the amount in the bank deposit scenario.

But remember risk assets come with the risk of a loss. In a manner of speaking, interim losses are the price of the ticket of investing in equities. Expect them to hit your portfolio sometime or the other, but that is the nature of the beast.

You emphasise professional advice, but mutual fund investors still rely on someone else's judgment. If an index is down 5% and a portfolio is down 2%, the fund claims to have "outperformed"—but the investor has lost money! How does this approach truly benefit retail investors, or does he have a choice?

If you are investing in equity or any other risk asset that gives you more than risk free returns, at times there will be losses in your portfolio. Even the best fund manager will not be able to prevent that. That is why equity money should be money you do not need to touch for any reason for at least 8 to 10 years. Predictability of equity returns on a one- or two-year basis is very low.

It is only by really understanding and mastering this fact can you get the compounding that everyone talks about in equities. I have read this book about Rakesh Jhunjhunwala and there's a quote of his where he says that he made money in spurts -- he made a lot of money in 1989 to 92 in 2003 to 2007 and 2009-2011. However, there were also five-year periods where he did not make money at all on his equity portfolio. That was his superpower: to understand that equity returns can be very lumpy and to be able to live through the losses and drawdowns.

To give an example from 1994 to 2003, the Sensex gave zero net returns and then for in the next four-plus years it went up nearly six times. That is how skewed equity returns can be!

Compounding is often talked about but rarely understood. Why is it not a mainstream discussion when it comes to retail investors?

The problem with all long-term compounding calculations is that they assume that the investor remains invested through thick and thin whereas actual data show that investors panic and exit often at the wrong tomes. Data show majority of mutual fund investors do not remain invested even for two years at a time. So, compounding happens over the decades in equities, but many people enter for quick returns and, hence, enter and exit at the wrong time.

Remember sentiment is a contra indicator. This means when everybody is happy, buoyant, optimistic and talking of great returns from the markets, the next period returns are likely to be below normal. Conversely, when there is fear and anxiety, when people are thinking of stopping systematic investment plans (SIPs) and withdrawing/ redeeming their investments, the next period returns are likely to be above normal. Compounding looks great on an excel sheet but one has to remain invested to get the returns.

For a salaried individual earning ₹50,000 to ₹1 lakh a month, what does diversification even mean? As per AMFI, the average SIP is ₹2,500, assuming the disposable income totals ₹10,000, or at best ₹25,000—how effectively can one really diversify?

It can mean simply a combination of fixed income via fixed deposit or low risk debt/ arbitrage funds and multi cap/ flexi cap equity fund for even just multi asset funds. That is all that is required. Possibly with some gold which most Indian households anyway invest in.

The key is to remember three things:

One, start investing as soon as you can, rather than wait for an optimal time and understanding. You would have all seen those statistics that for every five years you wait to start investing, you have to double the rate of monthly savings and investment. So, if you start investing at 25 instead of 30 you need to invest only half the monthly amount.

Two, get the broad asset allocation right and you are already 80-90% of the way through. Please ensure that you are not at either end of the risk spectrum with either zero risk or very high risk. There is no need to understand the intricacies of equity markets to begin with!

Three, even if you cannot invest 20% of your salary to start with, begin with 5% and invest 70% of the increment you get. Save this money and take it out upfront - that way it is relatively painless, otherwise lifestyle creep (upgradation of your lifestyle) will eat up your income growth.

Asset allocation makes clear sense for HNIs, but does it hold the same weight for an average middle-class investor? To put it metaphorically: garib nahaayega kya aur nichodega kya?

As I have explained about it is possible now to get a multi asset exposure even with limited savings every month.

You discuss asset allocation across geographies and asset classes (EMs, DMs, fixed income, commodities, real estate), but how practical is this for someone who barely understands the difference between investing and saving, let alone equity? Given that even basic understanding of maths is an issue, where is the interest of retail investors to analyse data or engage in DIY analysis?

And that is why I have said that even for so called experienced investors who have a day job, they should not try to do DIY investing for the bulk of their portfolio. Usually better to get a professional to do the job.

Real estate is not something you should necessarily diversify into. I have mentioned it simply because people do have a significant investment there and should be aware of that. My own advice is that other than the house you live in where factors other than financial considerations may come into play, you should not look at real estate as an investment, at least in India. Rental yields are extremely low, and the investment is totally illiquid.

The other categories are reasonably easy to get an exposure to. Not for very small investors but I have tried to make global investing accessible through a product which includes all countries and all asset classes available at just $10,000 which is ₹8.7 lakh. That is a big advantage over the million dollars typically needed to access this sort of portfolio.

Given the current market meltdown and with several IPOs trading below their offer prices, are we just witnessing the same cycle playing out again?

The point is that the current market move is not unexpected or unprecedented - this is very much the nature of equity market. If you go back 18-19 years, there have been only three-four years when the Sensex or Nifty have not corrected by more than double digits and one of those years was 2023.

So, in a sense, after two years we have seen a double-digit correct correction which is to be expected. However, corrections are much more brutal always in small caps and micro caps which is something I had been warning about for several quarters now, a also the excesses in the IPO market. My tweets and posts show that I had warned about these clearly in real time - not in hindsight!

Unfortunately, many investors are relatively new in the markets and the history has not really registered with them. Also, during bull runs there is always an element of irrational exuberance when investors assume that nothing can go wrong and super-normal returns will sustain forever.

In 2024, I had even ultra high networth individuals telling me not to be conservative and wanted to take high risk to get high returns. My reply to them was high risk only guarantees high losses! Others came and said that they would were not irrational and would be happy with 30-35% compounding per annum - not realising how absurd such expectations were!

But that is the nature of bull market when people think that good times will last forever.

If the meltdown continues—it's already been five months of negative returns—soon, a growth investor will start looking like a value investor. If the weakness persists and an investor is holding the wrong stock, he will start looking like a 'special situation' investor. And if the downturn drags on further, he might just end up as a 'no-situation' investor. What gives?

My advise today would be to remain invested to the extent of your equity allocation. However, it should not necessarily be in the same stocks or thematic fund or strategy. If something an investor holds is down 30-50%, it may still be a sell - there is no use thinking that you would sell only when it comes back to your purchase price as the market has absolutely no interest in your purchase price.

Investors need to learn that all money is the same and you can make it back in another stock not the same one. Also, that many stocks which do well in a particular bull run or IPO boom never ever come back. Some may even disappear into the blue yonder. After all there are large number of stocks that have been listed in the market which no longer trade - in fact that number is far higher than the number of stocks that currently trade.

Many companies whose IPOs were highly coveted did not do well at all thereafter. There are some such as Reliance Power which went completely bust but even a stock such as DLF did not see its IPO price for decades. On the other hand not too many remember that the Infosys IPO was undersubscribed!

With cycles getting shorter and more volatile, how should investors navigate changing investment philosophies?

Cycles have not grown shorter at all. We had a bull run from the Covid lows of March 2020, that lasted nearly five years. It is just that while in theory all of us will get the answer right on the question whether equity is a volatile asset class, when living through actual volatility it seems like the end of the world.

Given the interconnectedness of global markets, what's the guarantee that traditional hedging strategies (e.g., gold against equity market crashes) will work? If equity falls, many investors liquidate their gold ETFs or digital gold to cover losses—doesn't that reduce gold's effectiveness as a hedge?

Nothing works always but it is better than not diversifying at all.

2022 is a good example of a year when all geographies and all asset classes were down except oil and gas. However, that was an extreme outlier year. It was the worst years since records begin 200-plus years ago for the bond market. For equity and bonds going down together, globally it had happened for only the fourth time in a century, which included one year during the Great Depression, one year during World War 2 and 1969. So, such a thing happened after 50 years!

Therefore, this will not always work in every single time-period but, over a period of time, diversification does lower the risk of drawdowns compared to single asset and single geographies. It protects you from what I called SCCARs (Single Country Single Currency Single Asset Risks) - for example if you are invested entirely in Indian equities – that is in a single country India, single currency the Indian rupee and single asset which is equity.

Unlike institutional investors, HNIs, or family offices—who can straddle volatility, withstand market pain, and even double down when prices become attractive—retail investors don't have the same flexibility. Doesn't this mean that risk management strategies are fundamentally different for the average investor?

Depending on how much risk you can take and how much of even temporary drawdown you can stand, your asset mix will change but the fact is that if you go in for the safest, zero risk asset for 100% of your portfolio you will find it hard even to beat inflation. There is no way to get higher return without taking "some" risk. You need to manage that risk well with a proper asset allocation mix.

Given this asymmetry, how should a small investor think about hedging, asset allocation, and risk management?

If you want your money to work hard for you, keep pace with inflation plus get you some returns, look at an asset allocation which has some element of risk. But as I said before, even if you get the broad allocation right, that is good enough - you do not have to look for absolutely optimising your portfolio. The point is to get started with asset allocation and even within equity have a reasonably diversified portfolio across sectors.

If "buy and hold" is no longer a valid strategy, where does that leave long-term investing?

Buy and hold was never a valid strategy!

Look at the original Sensex list - that had Hindustan Motors, Premier Automobiles and majority of companies from sectors such as textiles, paper, shipping which have all become largely irrelevant. it had groups such as JK, Mafatlal, Thapar, Scindias which again have scrolled off. Those were the blue chips of the day.

All examples of buy and hold essentially suffer from survivorship bias. Buying blue chips of any particular era will not save you because the definition of blue chips itself changes There was a time when PSUs dominated Indian stock market indexes with companies such as VSNL, MTNL, BHEL, ONGC, Indian Oil, BPCL and many others and then came at time when no one wanted to even look at PSUs!

Even within sectors people remember the success stories of HDFC Bank and Kotak Mahindra Bank but forget banks of similar vintage that went bust or had to be rescued such as Global Trust Bank, Times Bank, Centurion Bank and many others.

What has happened, of late, is that the pace of change is accelerating at a faster rate and the life cycles of businesses and companies are getting shorter globally. Your portfolio must change periodically and your best bet maybe a flexi- or multi-cap portfolio run in a conservative risk managed way, along with allocation to other assets.