Global diversification is the key to long-term financial success: Devina Mehra

Speaking to CNBC-TV18, Devina Mehra, Founder, Chairperson & MD of First Global highlighted, many Indian investors believe that investing solely in the domestic market is a winning strategy, given the country's rapid economic growth. However, Mehra warns against putting all your eggs in one basket.

By Prashant Nair

February 27, 2025

Devina Mehra, Founder, Chairperson, and MD of First Global, is a pioneering force in global investing, known for her advocacy of diversification beyond borders. In her book Money, Myths and Mantras, she challenges common market myths and presents a data-driven approach to wealth creation.

Mehra, one of the first Indian investors to adopt a truly global investment strategy, cautions against the dangers of concentrating wealth in the domestic market, pointing to historical events like the Asian financial crisis. She also debunks the myth that "smart money" always wins, citing examples like Warren Buffett and Ray Dalio.

With a focus on risk management and avoiding major mistakes, Mehra emphasises that today's markets are about playing defense and minimising catastrophic losses rather than trying to predict the next big stock. In this interview, she shares insights on navigating volatility and building sustainable wealth.

Edited excerpts:

Q: What gave you the inspiration for the book?

Mehra: It was vaguely in my head. Actually, it doesn't take me that much time to write. So, time wasn't the issue. It was just deciding to do it because this entire book has been dictated on my phone. I didn't even switch on the laptop. Once I know what to say, it doesn't take me long. But the real reason was that I always say that in our business, the input and output is money, but for me, the real thrill is in the learning. This is one of the very few professions in the world where, even after 30 years, you can still say you're learning every day. There's never going to be a time when you know it all. And because my parents were both professors, the teaching genes are there. Once you understand something, you want to explain it to people, to say, "This is the way. Have you looked at it this way?" That was really the journey for me — starting with writing articles, then thinking about writing a book to put it all together.

Q: And it's written simply, I mean a beginner can read it, but also, somebody who's been in the markets will find the book useful, so that's something I found unique.

Mehra: The insights would be there even for people who have been in the markets a long time, but I tried to make it as simple as possible and went against the general format. So therefore, there are subheadings, there are things in boxes, just as there used to be in our research reports, there are summaries and wherever I have made videos on it, there's a QR code to take you to the video. And I've met people saying that I don't have a background in finance, but I could understand it. So that's very heartening.

Q: In your book you talk about markets forgetting history. What are markets forgetting right now? I mean, let's make it current, in the current situation.

Mehra: First of all, equity is a volatile asset class. Everyone knows in theory, equity is a volatile asset class, but when you're living through the volatility, it seems like the end of the world. So that is one thing which you forget history. I mean, look at the last 18, 19 years, almost every year, we've had a 10% at least, a double-digit correction, barring I think three or four years. And one of those exception years was 2023. So, after two years, you have seen index correction, which is over 10%. So, it's not the end of the world. It is not something which is unexpected. So those are the things you forget.

You forget how volatile the small cap segment can be, where the falls in 2008-2009 were nearly 80% and in 2018-2019 was almost two thirds. So those are all the things which look very good when you look at the past, yes, I would have bought here and sold there. But when you are living through it, you forget it. You forget the fact that only about 4,000-4,500 stocks trade in the market today, but many more have been listed. So many stocks just disappear into the blue yonder.

So again, when there is euphoria like there was in 2024, when every riffraff stock is running, every microcap is running, you forget how many of these frenzies come and go. How many of IPO frenzies have come and gone and what happens to the IPOs later. So, there are many, many things of history that are forgotten.

Q: You say that there is this myth that smart money always wins. Tell us some examples, one or two examples where the so-called smart money got it spectacularly wrong.

Mehra: It depends on what you call smart money. The point I make is that don't try to replicate what a successful investor or fund manager did. Because for one, they may not be doing what you think they are doing. And I'm not giving this as the worst example, but simply because Warren Buffett is the most well-known of the investors, you think he buys and holds. But the data shows he sells 85% of what he buys within two years. The majority he sells within six months. So, first of all, your general impression may not be supported by data.

Warren Buffett has also underperformed the S&P for 20 long years. Of course, his underperformance is a little bit, but Ray Dalio has been a spectacular underperformer, but people think like, he is some kind of guru and you must follow him. All this apart, you're asking fundamentally the wrong question, that it is not that somebody who is rich, therefore classified as smart, what did they do? The question you should ask is that of all the people who followed this strategy, what happened to them? Because, for example, you can have a very high-risk strategy where most people go out of business, but the few survivors multiply their money. So, after four or five cycles of this, there will be a handful left who would have made out spectacularly. But that doesn't mean that that strategy was a good strategy.

I mean, Rakesh Jhunjhunwala, somebody asked him that you made your money through trading, and now you say don't trade. He said, I might be a smoker, but I might still tell my kid not to smoke. In hindsight, somebody gets classified as smart, but, you don't know in the beginning. Even that person did not know in the beginning where they would make their money.

Q: Of course, past success does not guarantee future.

Mehra: Of course. And that is why, one of the people who many people like to follow is Peter Lynch. And I say that Peter Lynch—I give him credit not for his stock picking, but the fact that after a 14-year spectacular run, he knew that this is not replicable. And he retired in his mid-40s, as early as that, because he knew that was a particular time in a particular market, and that will not be replicated. So, I give him a lot of credit for that.

Q: You say investing is a loser's game in the book. What do you mean by that?

Mehra: So, this is an old article of Charles Ellis. I think it's a 1970s article. And it's a mind-opening article that goes beyond investing, which is that everything in life is either a winner's game or a loser's game. So, either you play superbly and aggressively to win in a winner's game, whereas in a loser's game, you play not to lose. So, for example, aviation- in JRD Tata's time or Charles Lindbergh's time, it was an adventure sport. It was a winner's game. That famous flight, Karachi-London- some part didn't work, so he wound a wire around something and made the plane fly. He missed airfields altogether and so on. But now there's only one way to fly the aircraft- go by the checklist, make no mistakes. Similarly, at tennis at the Grand Slam level it is a winner's game, but at your Mohalla level, you should play not to lose.

Q: It is a game of attrition.

Mehra: Yes, exactly. So same thing with investing. Maybe in our grandparents' time, it was a winner's game when information was not generally available, getting annual reports was a problem, there were no excel sheets. Now all the data is available. In fact, by law, a company cannot give differential information to anyone. So now you have these masses of data. You have the brightest people in the market. Now you have to play not to lose. Not to lose doesn't mean that you never book losses. In fact, you have to book losses by having stop-

loss, for example. By taking the small losses, you have to ensure that you don't take a huge and crippling hit on your capital. So, you win if you don't lose.

Q: But the idea is not to go completely defensive. It's not about buying defensive companies?

Mehra: No, no, because those themes come and go. I always say in the markets, no theme lasts forever. No asset class, no country, no sector, no investing style for that matter.

Q: You emphasise the need in the book for global diversification. And many will say, this is the fastest growing economy in the world. So why do it?

Mehra: Two things. For one, I always give the statistic that when I started working, the dollar was ₹12. So there's been an 87% depreciation in the course of a single career. So, when you're talking of your long-term financial goals, 10-year, 20-year, 30-year hence, there's no way you can forget this fact. So that's one. The other thing which you said about fastest growing economy, which were the fastest growing economies in the 90s? They were the Asian tigers. India aspired to become an Asian tiger. And then came one year in 1998-1999, when in one year, in dollar terms, all those Asian markets were down between 50% for Taiwan and 90% for Indonesia. Thailand, South Korea, etc, all in between that 50% and 90%. And that was a wake-up call for me. That was the reason why I went global, First Global became not just the first Indian, we were the first Asian members of the London Stock Exchange in 1999. And so that was one of the reasons why. The other was that I was bored of the same old companies. But that was a wake-up call because I had worked in Indonesia for a few months in my Citibank days. And I said, today, if I was in Indonesia, my networth would have been wiped out by 90%. And this is the nature of having all your eggs in one basket. So, let's say you are only in Indian equities, that's like being in India in rupees in equities. So that's putting all your eggs in one basket. That you should never do. And over a period of time, at least 30%-40% of your investment should be global. And global doesn't mean the US. US is not the world. It has been doing very well for the last 10-12 years. It will not always do well. There have been periods when US has underperformed hugely. 2003 to 2007 is a good example. Emerging market index itself went up 3.5-4 times, India went up 6 times in that period and US was an absolute laggard. So, leadership changes. So, it should be truly global.

I think Indians do not think global enough. And part of the reason is that we did not have this avenue when we were growing up. You could not send capital abroad till a few years ago. Now also the limit is very generous at $2,50,000 per person per year. I mean, a family of four can send out a million dollars every year and that is like way above the limit anyone requires other than the family offices.