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‘No Risk Of Sustained Market Crash In Markets…’ Says First Global’s Devina Mehra

Mehra also spoke on her recently launched book titled ‘Money, Myths, and Mantra: An Ultimate Investing Guide' and all things markets and investments.

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The Indian stock market is witnessing a downturn, the markets have corrected by 13 per cent so far making investors jittery. In a freewheeling conversation with Republic Business, Devina Mehra, Founder and CEO of First Global said that there is no risk of sustained market crash going forward. She also spoke on exiting SIPs and decoded investing strategies of well-known investors like Warren Buffett, Benjamin Graham, Rakesh Jhunjhunwala, etc. Mehra also spoke on her recently launched book titled ‘Money, Myths, and Mantra: An Ultimate Investing Guide' and all things markets and investments.

What do you feel about where the market is going to go forward from here?

Young investors have not seen what happens in the market. And so what has happened is not unexpected or unprecedented or any of that by a long stretch of imagination. If you go back 18, or 19 years, every single year there has been a correction that means a fall from the top of at least 10%, barring three or four years.

It happens every year and 2023 was one year where it did not happen. So in a sense, it's after two years that you've seen this 12-13 per cent drop in indices. So it's not something which is not to be expected.

I mean people in theory know that equity markets are volatile, but they think equity markets being volatile means that one year you will get a 20 % return and one year you will get a 7% return. But next year it might be a minus 25 % also. So that's the nature of the market, that's the nature of the beast. So it is nothing, which is strange. So this is the first thing people should remember. This is par for the course.

Of course, there are different segments in the market and your strategy has to be different for different categories. But for the market as a whole, there is nothing disastrous that has happened.

So we should exit the markets now or should we stay invested?

It's the right time to start investing as well. Sure. I mean, I would agree broadly with that, that definitely, it's not a time to stop investing. Because of that, I'll just give you one background. All of us know the risks of investing in the market. That if you invest in the market you can lose money.

But there's a risk of not being invested to whatever extent your equity allocation is. I always say that don't put 100% of your money in equity, but whatever is your equity allocation, this is definitely the right time to invest, provided you are in the right segments and the right kind of stocks.

But it's not a time to sit out in the markets because the real moves in the market often come when there is fear and uncertainty. I'll give you one statistic on why I'm saying there's a risk of not being invested.

If you look at 40 years of investing and you miss out on the 10 best days, you might think what is 10 days in 40 years? But it takes away two-thirds of your returns as much as that. And if you miss out on the 30 best days, which is less than a day a year, 90% of your returns go out.

So instead of like 100 rupees, let's say becoming 80,000 in 40 years, it is only 8,000. So there's a huge risk of not being invested. So most of the time, unless you're pretty clear there is a disaster looming, it makes sense to remain invested. But it may not be the same stocks where you are today. So with that caveat.

So what do historical trends show you, what do you draw from history that tells us which way the stock market is going to go forward?

Let's look at it in two segments. So one is the large-cap, mainstream indices like Nifty or Sensex and that sort of thing. So there, I mean, our impression is that Indian equity markets give you 15-16% return compounded. But what people don't realize is that there's a big variation not just from year to year, but from decade to decade.

So like the 1980s decade the compounding was 21%, next decade 14%, then 17%. But now this 2010-20 decade was an outlier where you didn't even get 9% compounding. And that doesn't quite capture it. If you had put in 100 rupees at the beginning of the decade, at the end you would get 230 rupees. Whereas in fixed deposits you would have got nearly 200. Whereas in 1980, if you would put 100 rupees in 10 years you would have got 700. So that's the difference. And that below-par return for 10 years is what created the room for this bull run you have seen since the COVID-19 lows. But you are still not way above the trend line. This risk of a sustained crash is when you're way above the trend line, which has not happened.

However, now if you look at the small-cap side, and this is not something I'm saying after the market has come down, people who have been following me know that I have been warning about this for months and quarters. I mean there was a very clear post that I reposted recently on my Twitter in July last year. I said no if then, but this is the risk in small caps.

Please get out and get into a steadier portfolio. And again you talked about history. Now this is the history of small caps. Again, people are new, they don't know the history.

In 2008-2009, the Small Cap Index made a high. From there it corrected nearly 80% and that level of index came back after eight years in 2016. And this is also theoretical that the index came back because by that time the index had changed almost completely.

The stocks that fell never came back. Now this is the risk in small cap, micro cap that some stocks of every bull run will never come back. They disappear into the blue yonder. That's the nature of the beast. That's the nature of small caps, that they are high-risk segments. And so you have to be super careful. So that's the whole point. And many stocks just disappear, don't forget.

Just for the knowledge of our readers, when you are mentioning a steadier portfolio, what does this mean?

I mean broadly the large-cap companies with a longer history. I mean not every, I'm not saying every large cap will be a buy, but I'm saying that's broadly the category you should be focusing on.

And also some of what you call mid-caps are fairly large caps if you go by the SEBI definition because SEBI now no longer gives it as market cap, this thing. So I mean, I'm saying broadly the bigger companies are also, as it happens, cheaper today compared to some of the smaller companies.

What according to you are those frothy spaces that investors should come out of?

So I say an easy way to find out where there is froth in the market is to look at where the new fund offerings are coming, and where the new thematic schemes are coming. Whether it is a small cap, whether it is defense, whether it is PSU or at another time there was NASDAQ in 2021 or even further back in 2000, there was a tech fund.

Every time, you see this pattern when the thematic funds are launched, that's normally when that theme has matured and is close to the peak, it's more likely to fall rather than rise from there. And the reason why people invest in that is fear of missing out, that you know, by the time you have understood the scheme or rather the theme, it is already a little late in the day.

So in general, avoid new fund offerings of thematic funds. And that is also an indicator of where there is usually froth in the market.

So I mean don't try to get too exotic in the market.

The market has corrected by 12%. What is your sense? Do you feel that it's a cyclical slowdown or do you feel that the correction is going to stay on for a longer period?

It is very difficult to say that. I am no oracle to say exactly how much. But I would think for the larger caps the downside is now limited, might be another 4-5% I would think. But as I said in small cap, and micro cap, many stocks never come back. The stocks that go up in one bull run sometimes never come back.

So be cognizant of that fact or for that matter, many of these IPOs that have come, we've had IPOs in the past where that stock price was never reached. I mean let alone complete disasters like Reliance Power, which was such a coveted IPO , DLF did not come back to its IPO price for decades.

So that is the issue whenever there is too much hype around something, you might never see those prices again.

What are the triggers that you foresee for this correction to happen going forward?

The narratives always follow what happens in the market. So for the last three, or four months, people have been talking of a consumption slowdown and that's affecting the markets. But if you look at the data, the consumption slowdown happened in the previous financial year.

In 2023-2024, the consumption growth in India was at a 21-year low. This year it is accelerating. But because the market failed now suddenly everybody wants one theory.

So they have gone back to consumption. I was talking about consumption last year. I said this is like a 21-year low in consumption. So stories always follow the data and the markets have a mind of their own. So it's not, I mean it's not as if that you. For the same data, depending on whether the market goes up or down, you can find a story like for example if, let's say you're looking at the US if interest rates are not cut and the market falls, you will say obviously interest rates had to fall and only then the market would have rallied.

But if they are not cut, you can also say they are not being cut because the economy is doing so well. So therefore there is a logic for the market to go up. So either way you can come up with this logic.

And also in your book you have said that investing is a loser's game. Why? Can you just explain why you are saying that investing is a loser's game?

I would say it's a 1970s article about the losers game by Charles Ellis. I mean so all of you should Google it. And it's only a 4- 5 page article. And it's a mind opening article because it said everything in the world is a winner's game or a loser's game and games change character. So for example aviation at the time that JRD Tata was flying from Karachi to London, it was a winner's game. It was an adventure sport because some parts didn't work. He wound some wire and made it work.

He didn't even land. He missed one town altogether. He landed in some disused airstrip and all that.

But now there's only one way to fly an aircraft. Go by the checklist, don't make mistakes. So in our grandparents' time, maybe investing was a winner's game because information was not available.

Even annual reports were difficult to get. There was no Excel sheet. So getting information was the edge. You could find gems that were not known in the market. In a sense now all data is available to everybody. The best minds are in the market. So your first aim has to be not to lose. You will win if you don't lose. Don't lose doesn't mean, I mean you should have strict stop losses.

So take the small losses so that you don't take a crippling blow to your portfolio. So don't lose big money. That's the mantra. That's the first mantra. And if you do that you will win. I mean if you look at mutual funds, for example, the best-performing schemes are the ones which perform in downturns which outperform in downturns.

There was one scheme that outperformed almost all the upturns. But it was almost the bottom-performing scheme because when the markets fell, it fell more.

Should we exit the SIPs right now?

In general, it doesn't make sense to exit SIPs.

But if you were doing it in a narrow theme, I mean don't have SIPs in general ever in a narrow theme. So don't have it in an industry fund, don't have it in only small-cap funds. So always be in a broad-based fund.

So being a broad-based fund. But it's always a bad idea to quit when the market has fallen. I mean that's never a good idea because as I said, that's where you will miss out on the upturn that those 10 best days have never come in a bull run.

They always come when there is fear and uncertainty in the market, not when people are happy and secure. They are always in market return. And this is data across the world.

There are many research papers on that from Portugal to Brazil to the US that sentiment is a contraindication. When everybody is happy and gung-ho, the next period's returns are below normal. And when everybody is scared and uncertain, the next period's returns are above normal.

So always after the market has corrected, there's no case to be made to quit SIPs. As I said, the problem was last year a lot of people went out of their large-cap SIPs and went into small-cap SIPs, which was the wrong thing to do. So you know that. But also one thing that I have observed in your book and I was reading through all the articles and the tweets, you are someone, who discouraging people from investing in small caps and you have been cautioning them not to invest in small caps rather than go for a large cap.

If a young investor is going forward in investing, they should never touch small caps and what is the reason behind it?

No, it's not that you should never touch. I said you should look at the whole basket. And the main value a fund manager adds is when you should be in which segment.

I'm not talking about the Sebi definition of small cap, but we look at the risky small caps as something below 5000 crore. Market capitalization, we don't look at anything below a thousand crore. But as you said, investing is a loser's game. So our first focus is always not to lose big money. And in small caps, some of the risk management measures don't work.

For example, I always say to have a stop loss. But the point is some of these stocks, when they fall, they fall like a stone. It's like a circuit down every day, there is no exit. So that's why. And you can't hedge them because the only hedge available is a put on the Nifty which doesn't move along with the small caps. So you have to calibrate that risk. And that's why I'm saying that your fund manager or your financial advisor should have the skill to do that. You will not have that skill if you are a lay investor.

If a person, a young investor with a corpus of 20,000 rupees wants to start in a stock market, in an equity market, where should he go?

Be in a broad-based mutual fund. So start with that. And often people ask me why I can't save 20% of my salary, so what should I do? I said you start with 5% of your salary, but next year's increment, put 70% of your increment into your investment basket. That's the way to do it.

Because otherwise there will be only lifestyle inflation and you will spend it all. So make that conscious thing that that money goes out and starts getting invested even and don't wait to optimize everything. But even if you are in a reasonable area, don't be at either end of the risk spectrum.

Again, I see people sometimes go from Fixed deposit saying they will become a day trader or derivatives or crypto trading or something like that. So don't do that kind of stuff with your hard-earned money.

There is no risk of a sustained market crash. Why do you feel so?

And that was what I spoke about that 2010-20, that decade, the return was so much below normal. That is what created the room. So the risk of a big crash is when you are way above the trend line. You're not even at the trend line of that 15-16% return. So that's why I'm saying that for the mainstream indices, I don't see a big risk. Which doesn't mean that, you know, in the market sometimes there are long periods when things don't go well. I mean, there was this book on Rakesh Chunjunwala and the authors had not focused on that line.

But for me, the gist of that book was that one line where Rakesh says that I made a lot of money From I think 1989 to 92, from 2003 to 2007. And one more period, he said these three periods I made a lot of money. In between, there were even five years where I made no money.

So I said his superpower was not identifying the stocks. His superpower was understanding that equity market returns are lumpy. And sometimes seven-year returns will come in two years and five years.

You will see nothing. So that is the mindset you have to cultivate. So don't put money in equity unless you will not touch it for eight to 10 years.

It doesn't mean it should be in the same stocks for eight to 10 years. But in the markets, they should be there for at least that much time. And that's one of the reasons why you should not have 100% equity. Because there is always, sometimes some reason or the other. You might need money. You might be buying a house, you might lose your job, you might want to study further, whatever. So don't have 100% in equity. But whatever is your equity allocation should be money you don't need for at least eight, or ten years. And also look beyond India. That's the other part.

So what sets Mr. Jhunjhunwala apart from other investors?

I mean people think that stock picking was his big skill. But even though I met Rakesh over the years and he was somebody well known to me, he would be talking about a different stock every time you met him.

So he did not know in the beginning that these three, or four stocks, Titan, Crisil, Lupin, and a couple of others would make him all his money. That's the takeaway that no one knows in advance which is going to be the multibaggers. Sometimes people ask me if your big calls are HDFC bank in 1996, just out of the IPO, or Amazon in 2001 when everybody had a sell on it.

We had a strong, strong buy which is the next HDFC bank or Amazon.

I said anyone who tells you that they have this superpower of identifying multi-baggers is telling you a lie. Because no investor in the world has ever had a portfolio that let alone 100% multi-baggers is even 50% multi-baggers at the most.

When you are recommending a stock at the most you can know beyond that you do not have any crystal ball. Aditya Puri and Jeff Bezos also did not know that this would be the 20-year trajectory of our company. So this is all nonsense.

So you have to choose a portfolio of at least 25, 30 stocks with a system, and out of that also 5, 7 will be duds. Some will give you normal returns and if you're lucky and you've chosen them well, you might get two or three multibaggers but you will not know in advance which those are. I just read a book on Tanishq, I mean written by the CEO of Tanishq and you know how many times that Tanishq business came close to being shut down.

So it's not as if Rakesh had some superpower. He knew Titan was going to be this great return. So I mean no one knows in advance what made him a successful investor. So I mean a part of it is the luck of the draw. I mean this is, that's why I'm saying that never work, never work backward from there to who is successful and what they do.

So what made Mr. Jhunjhunwala so successful?

So investing is a game of skill and luck like most things in life. I mean only chess is a game of skill alone. So anyone playing, I mean when a large number of people play a game there will always be at the end of it a certain number of people who will succeed. This is why I'm saying never work backward from there.

Rakesh for instance, made his initial capital in trading. Somebody also asked him this also that you made your capital in trading. Why do you tell people not to trade? And he says it's like you might be a smoker but you might still tell your child not to smoke.

So it's not as if people who trade, very few are successful. But because it's a high-risk game. But somebody successful can make an outsized return. So that is the thing, as I said, the one thing which struck me in that book

was the fact that he knew that equity investments can be, the returns can be that lumpy, and therefore he stayed the course. So that was one thing.

So when you go for investing, what are the four, or five key things that you watch out for as a risk management strategy?

Risk management in particular we do look at things below 5,000. We don't look at anything below 1,000 crore, with market cap 1 and 5,000. We monitor how much is our portfolio in that and therefore, you know, how much are we comfortable with at a certain point in time. So that's the strategy.

But risk management especially as a, I mean we do many things because we always focus on risk first. We always say 60% of your fees are for risk management and 40% is for return management. Just to emphasize that risk is more important. But as an individual investor, at least have a couple of things. One, have a stop loss and what is called a trailing stop loss. Now what is a trailing stop loss? Suppose you buy something at 50 stocks at 50 rupees and you have let us say a 25% stop loss.

That doesn't mean that your stop loss gets fixed at 37.5. If it goes from 50 to 100, and comes back to 90, you continue to hold. So don't have a target that if the stock doubles or triples, I will exit because then you will not get the multi-baggers with 100 save 150, you keep holding 100 to 200, you keep holding 200.

When it comes down to 150 now it is 25% down from the high, then you exit. That's what a stop loss means. So that's one simple thing. The other simple thing is to always look at people who are sometimes not even aware of what's in their portfolio. So look at your portfolio, and make sure you don't have too much in a single sector. So let us say, I mean if you, even if you are holding 20 stocks, if out of that you know, seven are banks and six are FMCG companies and you know, another six belong to someone sector, let us say pharma or chemicals, then you are effectively holding three stocks because stocks in a sector tend to move together.

So diversification is not just the number of stocks, it's also sectoral diversification. So these are simple things that you can follow as an individual, and as a fund, of course, we follow many other things as well.

You feel the higher emphasis on the PE ratio is highly misplaced. Can you just explain it in detail for our viewers?

Yes. So why is it that in the same industry, this is one of my interview questions, that something might trade at 20 times PE and something might trade at 40 times PE? And if you look theoretically the determinants are, one of course growth, growth in cash flows and earnings.

The other part is return on capital employed or return on equity which has to be balanced with the cost of capital or cost of equity. Now people will say many of these things. Are you making assumptions? But the point is when you are saying this is, you know, for this company, 25 PE is justified for that one, 50 PE is justified, then you are anyway implicitly making all these assumptions.

So be explicit about it. But more important most of us only look at the income statement, that this happened to the sales growth, this happened to the margin, this happened to the earnings growth. We do not look at the balance sheet, we do not look at the cash flows.

And that is where things hide. So those are things you can look at. So you are trying to say cash flow is one of the most important parameters.

Yes, because what happens, for example, there is a slowdown in the business. Now, first of all, the management also knows that everyone will look at sales and earnings. So how will they try to manage it? They will try to push more into the market by giving more credit. So receivables will go up and therefore that will show up on cash flows. It will show up on receivable days. It will not immediately show up on the income statement or profit and loss account.

So Sensex crossing 1 lakh by when? When do you feel that the markets are going to make a comeback and this correction is going to be over?

First of all let me tell you that in my 30 years in the market, I have never given a one-year Sensex or nifty projection. Not on New Year, not at Diwali time. And while I've never given it, I got the term for it a couple of years back when I read Daniel Kahneman's Noise.

The term is objective ignorance, which is things you not only don't know about, but you cannot know about. So to be confident about something you cannot know about is the biggest stupidity. And about that, Bloomberg recently did a study because in the US you have this data of people's projections going back decades and they found that on average the projection made, and this is all the big Wall Street firms, all the big banks in the world, HSBC and Citicop and Morgan Stanley and Merrill Lynch to that level off by 15% points.

So if they say that the S&P 500 will grow 20%, it can be 5%, it can be 35%. It can be anywhere and most of the time everyone projects a 0 to 10% increase in the S and P. And in the last hundred years, S&P has moved by 0 to 10% in a year only 14 times. So basically all these projections are not worth the paper they are written on. Nobody has a clue on a one-year basis and anyone who's telling you please look at their last 10 years projections and see what the reality is. So this is all complete nonsense, which is why I never give a one-year projection.

So what about the correction? When do you feel that this correction is going to be over and markets are going to make a comeback?

There's no formula to it, but I think, you know, now we are in the range of somewhere bottoming out. I said it doesn't mean that it can't go down another 4 or 5%. But I mean we are in the range of where you should be getting in.