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Stay invested or exit the market? What investors should do in a slump

Devina Mehra | 26 February 2025

We all know the dangers and risks of investing, particularly in equities, but there are risks to not being invested too.

SUMMARY

As past data shows, exiting when stock prices are weakening could mean missing the eventual gains to be made by holding on. Patience counts. A portfolio reshuffle may be worthwhile, though.

The questions I get these days often are along the lines of “What should I do about my portfolio now?" or “Should I get out of the market?" and “Should I stop my SIPs?" Before I tackle these questions, let us look at what has happened in the stock market in the recent past and why there is blood on the street.

The first striking aspect is the substantial divergence between the moves of market indices and those of stocks in the last few months. If the Sensex is down about 12% from its peak and even the SmallCap index is down “only" 23%, why does it feel so much worse?

Taking data from *Mint* dated 19 February 2025, the devil lies in the details. Although the indices appear to have declined moderately, the impact is more severe because, as of that date, about 64% of stocks were down between 25% and 50% from their 52-week highs. An additional 19% had fallen by 50-80%. Thus, about 85% of listed stocks were down by over 25%.

This means that while the decline of indices does not appear to be too much, the overall portfolio pain is dramatically heightened due to far steeper falls in individual stock prices.

This is still about what has happened. Coming back to the question of what to do now, we have to understand the basic framework. A series of academic studies across continents, from the US to South America and Europe, all show the same result—that sentiment is a contra-indicator.

What does this mean?

It means that when people are fearful, nervous, uncertain, anxious about investing or staying invested in markets, the returns for the next period are above average. In contrast, when the general mood is one of buoyancy and optimism, as was the case

for most of 2024 in equities and as is currently so for gold, the returns of the following period are likely to be below average.

When you are tempted to exit the market or are thinking of stopping SIPs, that is usually the time when you should remain invested.

To understand why that happens, let us look at Indian stock indices for which records go back more than 40 years. Now suppose you missed out on the best 10 days in these 40 years, meaning you remained invested through the years except on the 10 best days.

What do you think would have happened? You would not expect it to make much of a difference —after all, what are 10 days in 40-plus years?

Nevertheless, the impact on your returns is traumatic—it takes away two-thirds of your returns. Let us say ₹100 invested over 40 years became ₹75,000. By not remaining invested on just 10 days, this figure would've come down to ₹25,000. If you would not have been invested on the 30 best days over these 40 years (that's less than one day a year), the returns would fall 90%—to only about ₹7,000 after 40 long years.

We all know the dangers and risks of investing, particularly in equities, but this is the risk of not being invested!

The other thing which comes up from the data is this: almost every single time, the sharp rise-days came in periods of fear and uncertainty. They do not come in the bull phases.

This isn't something peculiar to Indian markets. The history of the S&P 500 goes back over 100 years, but if you missed out on the 100 best days, you would give up all your returns—if you started with $100 one hundred years ago, you would now have less than that in your kitty!

The moral of the story? Most of the time, it makes sense to remain invested in the market, and the only time you should think of getting out or stopping SIPs is in the middle of a bull run. Almost never should one do so after a significant correction.

In short, currently it is time to remain invested. All the compounding that you see mentioned in calculations only takes place if you stay invested. However, you may need to change your investment portfolio, especially if it is skewed too much towards small and microcaps, or for that matter the themes that have been popular in the recent past.

The one golden rule of investing is that you should not try to recoup your investment from the same stock or fund. Many a times, we may have bought something at ₹100 which may be priced at ₹65 today. We tell ourselves that we would sell it once it comes back to ₹100. But the market has absolutely no interest in our purchase price, and there are stocks which will never ever come back to the prices they once traded at. Such examples abound.

Never get emotionally involved with the companies or securities you hold. The purpose of your portfolio is one and only one: maximize your wealth without taking undue risk. It does not matter if the ₹65 to ₹100 journey happens with something else rather than the stock or fund you are holding today.

The other important part: do not skew your portfolio towards single themes—sectors, the smallcap segment, single-country funds, etc.

Good investing is almost always boring. Get your asset allocation right and within equities you will be better off with multicap or flexicap diversified funds or portfolios. Generally avoid new scheme offerings on narrow themes. Do not chase the asset, theme or strategy that has done well of late—that is likely to underperform in the near future.

Get the fundamentals right.

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