

The principles of investing don't change but portfolios often must

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Chasing yesterday's hot theme, asset class, sector or stock is a surefire way of ensuring under-performance.

SUMMARY

This is a good time for investors to revisit their portfolios to see if they align with their goals. Dismiss the usual forecasts, keep investing in gloomy times as a contra bet within one's allocation limits and get rid of losing bets. If the goal is to maximize wealth, make clinical decisions.

The year 2025 has gone by as quick as a wink—I dare say so has the first quarter of this century. It's 26 years since Y2K!

This is a time to look back and look forward. So what is it that you should be doing as far as your investing life is concerned? Some of what I suggest may reiterate what I have spoken about because good investing is boring. Core investing advice does not change every two weeks and even every two years.

First off, use all annual market forecasts of where the index will be and the five best stocks for next year as pure entertainment. Because data in every single market shows that these projections have absolutely no correlation with reality.

A study in *Mint* illustrated how stock picks by experts and well-known financial institutions did worse over the years than the average stock. You are literally better off throwing darts at a board.

Bloomberg analysed annual US index projections over several decades from all well-known banks and Wall Street firms and found them to be off by an average of 15 percentage points—meaning they were not worth the paper they were written on.

However, for this year, there is something that gives me a pointer to what may happen in Indian markets. Lately, most media people and experts have been enumerating risks in the market.

Also, most investors are questioning themselves as to why they are investing in Indian stock markets when everything from fixed deposits and gold to US markets has given better returns this year. After all, the Indian market has been in the bottom 10% globally.

The sentiment is downbeat partly because the average stock has not even done as well as the index. Here is the kicker: sentiment is a contra indicator. When there is uncertainty, fear, anxiety, and questions like this abound, the next period's returns are usually above normal.

When 30% returns appear to be available for the taking, as was the case in the first 8-9 months of 2024, you should be wary.

By this yardstick, the returns in 2026 may well be better than what we have seen of late because history shows that sharp market rises come at a time of such despondency. So, the lesson is to stay invested to the extent of your equity allocation, which should not be 100% of your investment portfolio.

Then comes the hard part. Once the new year festivities have died down, take out a couple of hours and look at all your investments. Where are you invested currently?

How much in equity, whether directly or via mutual funds, portfolio management services, etc, and how much in fixed income via fixed deposits, tax saving schemes and fixed income mutual funds? Similarly for gold, real estate, cryptocurrency or any other asset that you may have.

Now see whether this is the ideal asset allocation for your goals, when you need the money and so on. If not, decide what changes you want to make and make them latest by the end of January.

Now come to the equity space. Dig out your Depository Participant (DP) statement, grit your teeth and go through it right till the end. I can guarantee there will be many entries that would make you want to squeeze your eyes shut and not think about them.

But get rid of all the junk. Anything you will not buy today at today's price, you should not be holding at all.

Most investors hold on to losers for too long instead of moving on to what are the best investments as of today. For the same reason, you should never wait for a stock to return to your purchase price. Book the loss, invest in a better place and move on.

The market doesn't care what price you bought it at and many stocks (for example, those that may have done well in the small- and micro-cap boom of 2024) will never come back to those prices again.

Your objective is to maximize wealth from your portfolio. It does not have to come from the same stocks. Be clinical.

At a core level, for your equity investments, ask: What is the criteria you are using to pick stocks? Do you even have one?

And if you do, such as certain growth numbers, return ratios and governance parameters, do the stocks you have in your portfolio reflect that criteria or have they been bought mostly based on whims and tips? Some reflection is needed on this.

It will bring you to the question of whether you should be a do-it-yourself investor or not—something I wrote about in my last column, 'Should you invest yourself or let professionals do the job for you.'

If you want to make an investment resolution for the year, tell yourself that you will never invest in anything because of FOMO (fear of missing out), because that is the beginning of many investing mistakes.

Chasing yesterday's hot theme, asset class, sector or stock is a surefire way of ensuring under-performance. Unfortunately, financial services companies prey on this. Related to this is the question of whether someone selling you a product actually has the relevant expertise.

As someone who has been advocating global diversification for a while, I watch with trepidation many with no background in global markets launching global products simply because of FOMO feelings among investors.

Step back. Be deliberate and objective in your investment decisions.

Have a great 2026!

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