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Why investors end up doing the opposite of what they should do

Devina Mehra | 2 July 2026

Whether it is equity, gold or any other asset class, investors should be careful if making money appears too easy.

SUMMARY

It’s closely linked with the reason that many equity market experts like to offer data-free opinions. When narratives overshadow market data, it’s easy for investors to go wrong.

If you give investors a long-term chart of the Indian equity market, they will be able to tell you that the right time to buy was when prices were low, and for profits to be booked it was when they touched highs. But what does the actual data show? Here is how equity inflows into mutual funds (MFs) have varied with market moves.

During the 2004–07 bull market, the BSE 500 TRI (total return index) quadrupled from around 2,000 to nearly 8,000. The Sensex doubled from the start of 2003 to the end of 2004 and then tripled again over the next 3 years, thus becoming six times in about 4.5 years. During this period, monthly equity MF inflows more than doubled from around ₹5,000 crore to ₹11,000 crore, with the strongest inflows after the market rally.

Then came the 2008 global financial crisis. Indian indices fell 60-65% while monthly equity MF inflows crashed from ₹11,000 crore to ₹4,000-5,000 crore after the market correction. After the 2009 recovery, indices rebounded sharply, whereas inflows recovered gradually, indicating improved investor confidence with a lag.

The 2013–14 rally again saw inflows accelerate only after the market had risen substantially. Equity inflows rose to a structurally higher range, averaging ₹6,000–12,000 crore per month during 2015–19, rising to ₹25,000–40,000 crore per month post-2020, up roughly 230–320%.

During the covid correction in 2020, significant equity MF outflows took place only after the market decline. The 2021–24 bull market saw the BSE 500 TRI rise 115% to 48,000, while monthly equity inflows quadrupled to ₹35,000–40,000 crore following the market recovery. The 2025-26 correction has seen monthly equity inflows moderate from about ₹40,000 crore to ₹25,000–30,000 crore.

Thus, while equity MF flows have increased structurally over the last 20 years due to greater retail participation, systematic investment plan (SIP) penetration and financialization of household savings, the behavioural relationship has remained consistent over two decades: strong market performance is followed by stronger inflows, while a decline sees these shrink substantially.

Every major market cycle outlined above shows that meaningful changes in MF flows occurred after the corresponding market movement. During bull markets, investors increased allocations only after sustained market gains, while during bear phases, inflows weakened or outflows increased after markets had already corrected.

This behaviour is not peculiar to equity markets. Inflows into gold funds peaked in January 2026, exceeding even those into equity MFs. Since then, the rupee has depreciated against the US dollar and India’s import duty on gold has risen. Despite this, even the rupee price of gold is down. The fall is even more in dollars. Predictably, gold investors have begun to head out.

Whether it is equity, gold or any other asset class, be careful if making money appears too easy. On the other hand, hold on if you feel panicky. But investors and fund managers often do the exact opposite!

I am reminded of fund managers who were advising you to sell ‘unproductive’ gold and buy shares in 2024, but were promoting gold funds by the end of 2025. I recently came across a preposterous suggestion masquerading as analysis saying that MF inflows have given foreign portfolio investors (FPIs) an exit path and the way to stop it is to curb Indian retail money flowing into the equity markets via MFs.

Never mind that all data shows MF inflows and outflows lag rather than lead market movements. Inflows after market peaks have never prevented crashes. On the other hand, even drastically reduced inflows after crashes have never held back the next bull market.

I see a similar insistence on data-free analysis of FPI flows. Erudite commentators write long analyses along the lines of: ‘For XYZ reasons, FPI flows will go down (or up) and this will have a negative (or positive) impact on the Indian stock market’—or the bond market, if they are talking about debt flows. The last statement is made almost as a throwaway line, as if it is obvious that nothing further needs to be proven. If FPI flows change, they assume, it will obviously impact market direction.

But where did this conclusion come from? Who has tested it and proven it correct? Has anyone even tested whether there is a correlation, let alone causation, between FPI flows and market movements? As someone who has done this exercise, I can tell you there is no correlation to be found.

The biggest contra example: FPIs first came to India three decades ago as big institutional investors at a time we had no domestic fund management industry to speak of and little retail participation. Logically, the impact of the money they brought in should have been even more than what would be the case today, now that domestic players have become sizeable too.

Tens of billions of dollars flowed into the Indian market from 1994 onwards. It should have driven the market crazy, isn’t it? Yet, 1994 to 2003 is the only nine-year period in Indian market history that delivered a net-zero Sensex return. Data before narratives, please!

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