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Your portfolio may be full of ‘zombie stocks’: How to identify and exit them

Forgotten, illiquid and delisted shares can quietly sit in investors’ demat accounts for years, turning portfolios into a collection of “zombie stocks”. First Global’s Devina Mehra explains why investors should periodically review every holding and let go of stocks that no longer justify their place in the portfolio.

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Devina Mehra said investors can end up holding stocks that have remained in their portfolios for years simply because they have stopped paying attention to them.

Investors often review their mutual funds, stocks and overall asset allocation, but one part of the portfolio can easily be overlooked: old, forgotten stocks sitting in demat accounts. These legacy holdings may include illiquid shares, companies that have stopped trading or stocks that have long ceased to fit an investor’s financial strategy.

Devina Mehra, founder, chairperson and managing director at First Global, has highlighted the problem of investors continuing to hold such stocks, comparing the emotional attachment to old investments with the difficulty of letting go of past relationships.

In her column, Mehra pointed out that nearly three-quarters of all stocks that have ever been listed on Indian stock exchanges do not trade anymore. She noted that while around 4,500 stocks currently trade actively in the Indian market, the total number of stocks ever listed is several times higher.

This makes reviewing an old demat portfolio particularly important. An investor may have accumulated shares over several decades through purchases, corporate actions, inheritance or investments made by parents. Some of these companies may have subsequently become illiquid, delisted or effectively disappeared from active market trading.

Why forgotten stocks can become a problem

According to Mehra, investors can end up holding stocks that have remained in their portfolios for years simply because they have stopped paying attention to them. Such holdings can clutter a portfolio and, more importantly, represent capital that could potentially be deployed elsewhere.

The problem is often behavioural rather than technical. Investors can become attached to a stock because they bought it at a particular price or because they once believed strongly in the company's prospects.

Mehra argues that investors should instead ask a simple question: If I had cash today, would I buy this stock at today's price?

The purchase price, she points out, should not determine whether an investor continues to hold a security. Waiting for a stock to return to its original purchase price can result in capital remaining locked in an investment that no longer meets the investor's expectations.

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Besides jazzing up the usually boring business headlines, on a more fundamental basis the fallacies in our investment Portfolio are mostly fallacies in thinking and they permeate Show more

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Are you treating equities in your portfolio like you do your exes?

Out of sight and out of mind is an ill-advised approach if once-loved stocks are still in your portfolio

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Think of your exes—you may still nurture tender feelings for some of them, but most are in the category of "Good Lord, what was I thinking when I started dating them" or "fell in love with them" or God forbid, "married them!"

You don't even want to think about them now, do you?

The stocks on the last page of your depository participant (DP) statement, which details your portfolio, are mostly in the latter category. You loved them once but now wonder how you got entangled with something so useless or toxic.

value of many would not have gone down to virtually nothing.

Never forget the golden rule: anything that you would not buy at today's price, you should not be holding in your portfolio.

That is the simple and only valid test. The 'hold' rating exists in the world only because most investors refuse to acknowledge this simple truth.

What happens even more often is that if you buy five stocks and one of them doubles or triples, you book profits on that so that it appears that your portfolio is profitable, whereas you hold on to the ones that fall 40% or 50% or even 70%.

This means is that over time, you get rid of your winners and hold on to a lot of losers and pure junk—the exact reverse of what you should be doing.

Your portfolio becomes a graveyard for the debris of bull markets from the past.

Ideally, you should never sell a stock that has done well simply because it has gone up, say, X%, because if you do that, you will never get the true multi-baggers.

On the other hand, you must be ruthless about stocks that have not done what you expected them to do.

this: nearly three-quarters of the stocks ever listed on Indian stock exchanges do not even trade anymore. Their price is now zero. Just think about it.

Roughly 4,500 stocks trade actively in the Indian market. The number of stocks ever listed is three to four times that number.

After all, in the 1990s, there were single years when the number of listings were 1,100 and 1,200. Most of those have disappeared into the blue yonder.

That is why the best thing you can do for your portfolio is that when you are making an investment, tell yourself that you may be making a mistake.

Because it is certain that a good chunk of your investments will not do what you expect them to do, partly because the future is uncertain. No one knows what will happen.

This should have been the lesson you took away from the covid crisis. At the beginning of 2020, nobody knew that the pandemic would hit. But suppose you had known that there would be a disruption in the world that would kill millions of people and revenues for several industries—from hotels and aviation to automobiles and many parts of the retail sector—would go to zero, could you have ever predicted that

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How to identify 'zombie stocks'

Investors can begin by downloading their complete demat or DP statement and reviewing every security—not just their actively tracked holdings.

Stocks that warrant closer scrutiny include companies that no longer trade regularly, have been delisted, have negligible liquidity, or whose business fundamentals have changed substantially since the original investment.

Investors should also check whether the original investment thesis still holds, whether the company continues to have reasonable growth prospects and whether the capital could earn better risk-adjusted returns elsewhere.

What to Check	**Why It Matters**
Illiquid stocks	Difficult to sell due to low trading volumes
Delisted shares	May no longer trade on stock exchanges
Long-forgotten holdings	Could represent capital that is no longer aligned with your goals
Original investment thesis	Check whether the reasons for buying the stock still hold
Current business fundamentals	Assess earnings, growth prospects and financial health
Purchase price	Avoid holding solely because you want the stock to return to your buying price
Better alternatives	Consider whether the capital can earn better risk-adjusted returns elsewhere
Old demat holdings	Review inherited, legacy or very old investments that may have been overlooked
Corporate actions	Check for mergers, demergers, delistings, bonuses or other changes
Complete DP statement	Review every security rather than only the stocks you actively track

Mehra's broader message is that investors should be willing to acknowledge mistakes rather than allow them to remain indefinitely in their portfolios. A stock does not become a good investment merely because an investor has held it for many years.

A periodic portfolio clean-up, therefore, is not simply about removing unwanted securities. It is about ensuring that every rupee invested continues to have a reason for being there.