FINOLOGY 30

10 THINGS TO DO IN THIS MARKET CRASH

FINOLOGY
Research Desk

"The world will ask who you are, and if you do not know, the world will tell you."

- this quote by Swiss psychologist Carl Jung is more relevant today than it ever was.

We are receiving increased concerns of panic and clueless decisions by people. Sentiments are a bit crazy right now, and people are just following the herd. We could not help but address this issue.

So, here are **10 research-backed suggestions to follow if you wish to navigate this market dip unscathed.**

1 DON'T TRUST THE MEDIA BLINDLY. ALWAYS VERIFY

During market downturns, relying on unverified media advice (especially social media) can be dangerous, as these platforms often exaggerate emotional reactions and short-term speculation. This is a cleverly planned move to monetise from widespread fear, also called **"fear mongering."** Have a look at this recent headline:

While these numbers look big in hindsight, they do not depict the true picture of the market.

For instance, the figure mentioned in this news: ₹94 lakh Cr. per se seems huge, but it represents only **~ a 20%** fall in the overall market cap. As of 27 September 2024, India had a total market cap of ~₹479 lakh Cr., which has fallen by ~20% over the last six months to ~₹384 lakh Cr. on 28 February 2025.

We did a back-of-the-envelope analysis on the last 3 decades' data to check the gravity of this matter. If you had been invested in Nifty 50 for the last 30 years, your portfolio would have been down by more than 20% from its highest point on **31% of the market days!** Despite this, Nifty has given a decent **11% CAGR returns** in the same period– because a correction is just an **unrealised loss** if you don't panic sell.

Besides, markets have seen such drawdowns and witnessed some of the highest returns post that. For instance, in 2008, the market fell by ~52% (its worst 1-year performance in 21st century) but regained strength with **~76% returns** in 2009 and 18% in 2010.

There is this great quote by French film-maker Alejandro Jodorowsky that goes, ***"Birds born in a cage think flying is an illness."*** For someone making their baby steps in this info-polluted market and someone who hasn't witnessed multiple market cycles, it is very important to stay away from negativity. Because more often than not, it's just propaganda or a manipulation of facts.

Stay away from the noise and avoid taking any sort of decision based on social media. Thank us later.

2 DON'T STOP YOUR SIPs

The biggest mistake a mutual fund investor makes in a bear market is stopping their SIPs. We are witnessing this trend among Indians in recent times. The SIP stoppage ratio has reached **109%** in January 2025, meaning— more people are exiting their SIPs than those entering. Total number of outstanding SIP accounts declined month on month for the 1st time in January 2025 during this financial year.

Monthly SIP Stoppage Ratio Trend

Date	Outstanding SIP accounts (in Crore)	SIP stoppage ratio (in %)	SIP AUM (in ₹ Trillion)
Apr 2024	8.7	52	11.3
May 2024	8.76	88	11.5
Jun 2024	8.99	59	12.4
Jul 2024	9.34	51	13.1
Aug 2024	9.61	57	13.4
Sep 2024	9.87	61	13.8
Oct 2024	10.12	61	13.3
Nov 2024	10.23	79	13.5
Dec 2024	10.32	83	13.6
Jan 2025	10.27	109	13.2

Source: LiveMint

We reached out to some investors to understand why they paused their SIPs. And the reason was quite obvious.

For starters, understanding the markets gets a tad bit tricky in the beginning. They are often lured to start investing during strong market rallies and are very confident about their investments when markets are at all-time highs. However, bear markets often follow these all-time highs, which is when their funds underperform relative to peers (due to high base), and then they stop their SIPs.

But what if we tell you that no matter when you start investing, if you stay invested in good avenues, ultimately, **discipline rewards investors**. Let's take 2008 as an example of one of the biggest corrections in the history of Indian stock markets. During this correction, small-cap stocks, represented by the Nifty Small Cap 250 Index, had fallen by ~75%+ from the market peak in January 2008. Here's how your SIP investment would have delivered returns if you:

Started SIP just in the market peaks of January 2008:

SIP* Tenure	Annualised Returns (XIRR)
3 Years	27.97%
5 Years	9.23%
10 Years	19.86%
15 Years	14.05%
Til Jan 2025	16.46%

*Source: Economic Times (*SIP date assumed to be the first date of every month)*

This shows that starting a SIP at just the market peak is not a big deal. Over time, markets will reward the investor for their discipline. So, **don't pause your SIPs.**

Remember this quote by American investor Alex Hormozi -

"A focused fool can accomplish more than a distracted genius."

3 PREFER QUALITY OVER VALUE

When stocks are beaten in a bear market, many investors blindly invest in random trending stocks, ignoring the fundamentals. No doubt, value investing is good, but never at the cost of quality. Even the investing mogul Warren Buffet has said it–

> ***"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."***

One should realise that the bear market is not a catastrophic event, it's just the market performing its normal function of separating the good, the bad and the ugly– transferring wealth from the "active to the patient."

Holding quality stocks in your portfolio is statistically proven to provide **better protection against downside risk**. Now, there's no generally-defined criteria of a quality stock, but for your understanding, we compared the drawdown (drop from highest point to lowest in a year) of Nifty200 Quality 30 Index vs the broader market index over the last 20 years.

Over the last 20 years, NIFTY200 Quality 30 index recorded **lower drawdowns 70% of the time** compared to the broader market index, i.e. 14 of the last 20 years. These instances indicate better resilience of NIFTY200 Quality 30 during periods of market correction– when you need it the most.

Check the table in next page.

Calendar Year Drawdown of Indices

Year	Nifty200 Quality 30	Nifty200	Nifty 50
2005	-13.06%	-12.96%	-13.04%
2006	-31.81%	-32.00%	-29.87%
2007	-13.42%	-15.14%	-15.33%
2008	-55.95%	-64.04%	-59.86%
2009	-13.39%	-18.77%	-17.57%
2010	-7.35%	-11.62%	-10.66%
2011	-13.35	-28.33%	-26.20%
2012	-7.60%	-13.89%	-13.76%
2013	-11.29%	-16.41%	-14.58%
2014	-7.28%	-6.68%	-6.50%
2015	-11.60%	-14.55%	-15.98%
2016	-13.74%	-13.53%	-12.46%
2017	-3.96%	-4.64%	-4.11%
2018	-14.00%	-15.29%	-14.55%
2019	-9.53%	-11.67%	-11.45%
2020	-29.46%	-38.22%	-38.44%
2021	-8.15%	-10.34%	-10.08
2022	-18.06%	-17.13%	-16.47%
2023	-4.66%	-8.52%	-7.06%
2024	-12.43%	-11.22%	-10.93%
2025(YTD)	-14.25%	-11.46%	-8.53%

Source: NSE, Finology Research Desk

Hence, this is the time for investors to look into fundamentals and not just price action. This is a great opportunity to filter good quality stocks and invest in them at attractive valuations– and not the other way around.

However, we understand that analysing and selecting good quality stocks to invest in can be quite tough for you. Hence, we have built Finology 30, our flagship readymade basket of high quality stocks for the long term. Check it out **here.**

4 CHOOSE DISCIPLINE OVER OPPORTUNISTIC APPROACH

Investors often overestimate their capability to time the markets. While it's good to utilise the market dip for investing, the **objective should not be to time it**. Because it takes a load of big data, complex machinery and years of expertise to actually benefit from an arbitrage (short-term price difference) and despite that, less than 10% traders actually make profits out of it.

On the contrary, the majority of retail investors lose their discipline trying to be an opportunist and eventually end up making losses.

To help you understand why timing the market doesn't work more often, we studied Nifty 50 for 30 years and compared two types of investments:

- **Disciplined monthly SIP** of ~₹8,500 into Nifty 50
- **Opportunistic market-timed SIP** where you only invested in months when Nifty 50 had dropped. For example, if Nifty 50 had a positive return in the first month, you wouldn't invest that month. Instead, you would hold that money and add it to the next month's SIP whenever Nifty 50 dropped. So, if the second month had negative returns, you would invest ₹17,000 (₹8,500 of month 1 and ₹8,500 of month 2) and so on.

From a surface level, the second approach would seem to be more profitable since you are utilising the market dips. However, the results of the study were quite interesting:

- The **returns in the disciplined SIP approach was ~₹3 lakh higher** than the opportunistic market-timed SIP approach.
- If you had chosen the opportunistic market-timed SIP approach, you would have been able to beat the disciplined SIP approach **only in 14% of the months**.

Add to that the intangible costs of time and effort put to time the market, because as the American essayist Henry David Thoreau puts it so aptly–

> ***"The price of anything is the amount of life you exchange for it."***

At the end of the day, you want to sleep peacefully. Do you think trying to get your blood rushing by timing the market is worth it? We wouldn't want that for you.

In this bear market, it is important for investors to stay disciplined in their investing approach for long-term wealth. Big money is in the long run.

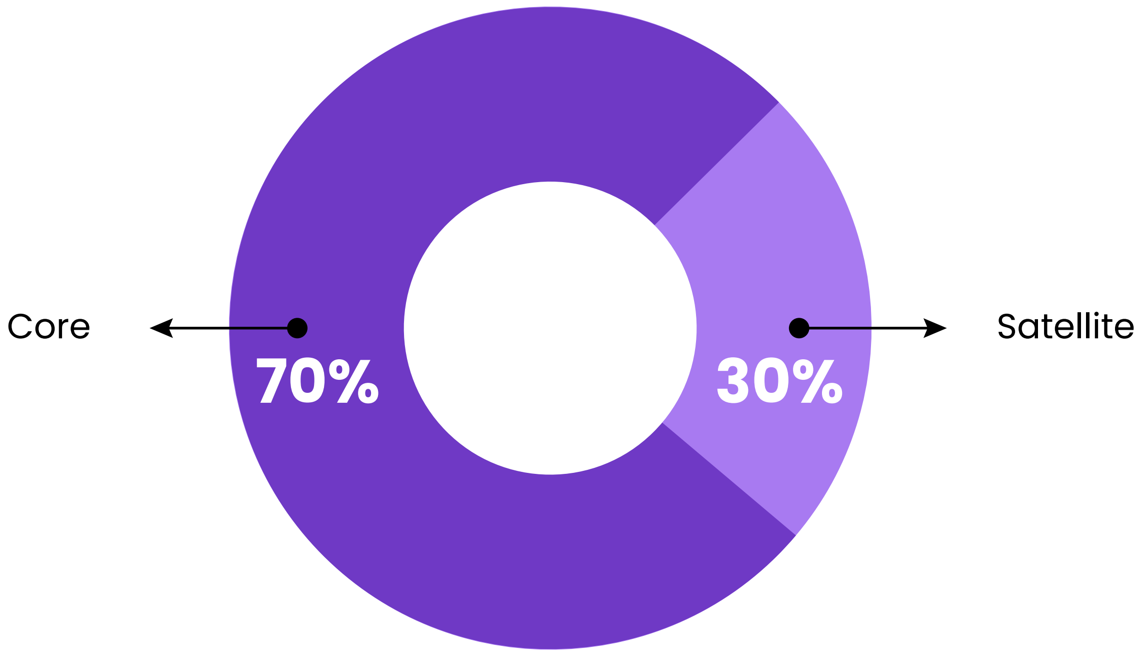
5 CORE & SATELLITE PORTFOLIO

Investors often struggle with balancing stability and growth in their portfolio. A core-satellite strategy helps ensure that the majority of investments remain stable while allowing for high-growth opportunities.

As the name goes, you should divide your investment portfolio into 2 segments:

- **Core Portfolio -** It comprises defensive, less volatile and fundamentally strong stocks. The objective is to perform steadily in all market conditions.
- **Satellite Portfolio -** It includes high-growth stocks. The objective is to outperform in bull markets (has some element of risk in bear markets).

This approach works because a fully defensive approach may lack high returns while a very aggressive portfolio may collapse during a downturn.



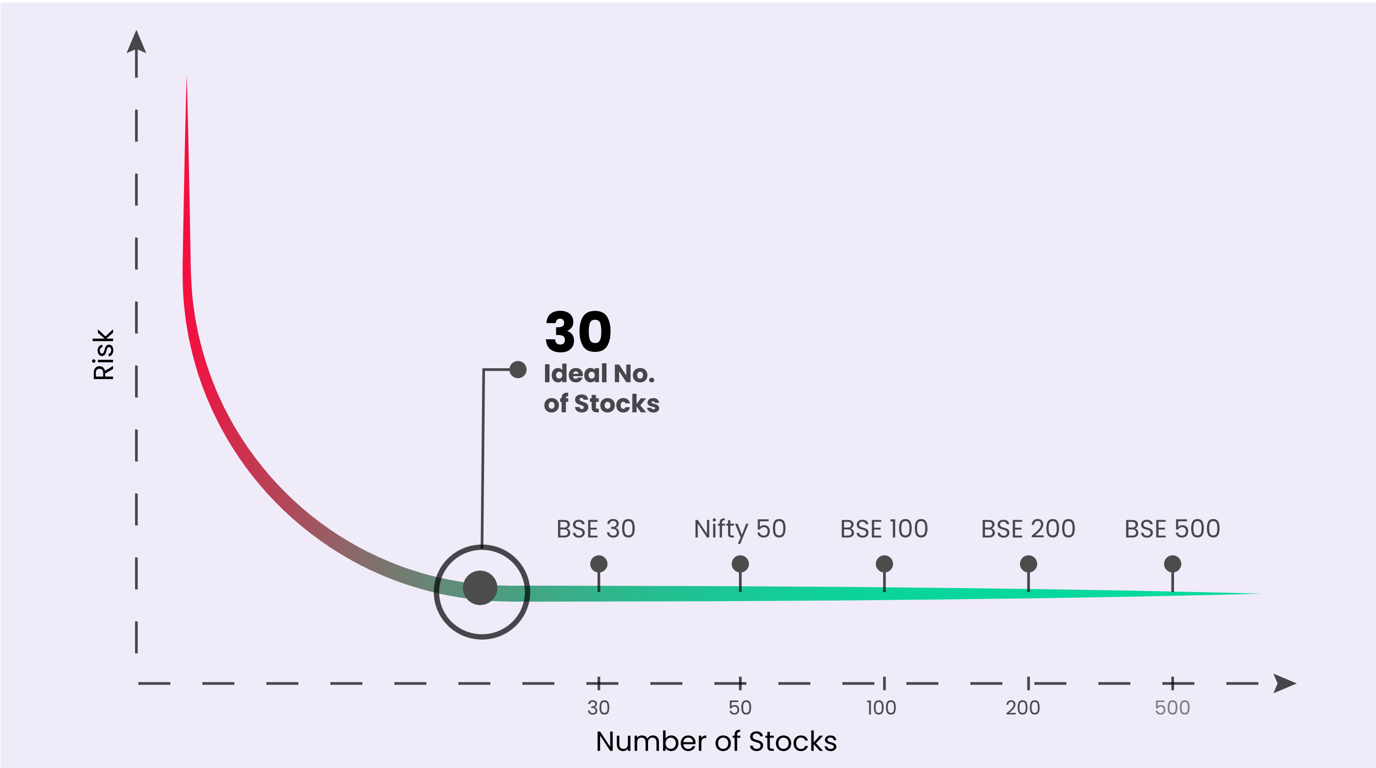
Ideally, 70-80% of the portfolio should be Core and the rest 20-30% in Satellite. However, your allocation should depend upon your risk appetite, comfort levels and level of experience too.

6 DON'T OVERDIVERSIFY

In a bear market, investors often try to spread their investments too thinly across various stocks in the lure of deep discounts. However, this often leads to **overdiversification** of the portfolio which ultimately **nullifies the potential benefits**.

A study by Avendus Olivo aims to check the impact of diversification in Indian markets. The study compared the performance of various indices - Sensex 30, Nifty 50, BSE 100, BSE 200 and BSE 500.

Limited Benefits on Diversification Beyond 30 Stocks in Indian Markets



Source: Avendus Olivo

The study made it evident that **going beyond 30 stocks clearly does not provide additional benefits** in terms of risk reduction in the Indian markets.

Maintaining a large number of stocks can **dilute potential returns** because any large gains from a few good picks may be offset by the poor performance of numerous bad ones.

Besides, keeping a large number of stocks in a portfolio increases the **complexity of research and monitoring**, demanding more time and resources. As the number of stocks grows, staying well-informed about each additional holding becomes increasingly challenging.

Hence, rather than trying to add more and more stocks to your portfolio, scan your portfolio first. **Check if you hold some good quality stocks that can be averaged and invest in them**. Only after that, if you haven't exceeded the recommended 30 stocks limit, should you think of investing in new stocks.

7 INVEST ACROSS SECTORS

While having a well diversified portfolio of 25-30 stocks is a good starter, in the words of celebrated American investor Ray Dalio–

> ***"Knowing how to diversify well is more important than anything else."***

The idea is to 'diversify well'. And how does one do that, you ask?

Sectoral diversification is crucial. To understand why so, let's take the performance of 2 different indices - Nifty FMCG and Nifty IT at some of the major events.The Nifty IT index fell by -54.6% in 2008 during the global financial crisis. Any investor with all investments in the Nifty IT index would have suffered heavy losses. On the other hand, during the 2009 recovery period, an investor with all investments in the Nifty FMCG Index would have missed the exponential gain in the Nifty IT index.

For more clarity, let's consider 3 scenarios for estimating the returns during that period–

- 100% investment only in Nifty FMCG Index
- 50% investment each in Nifty FMCG and Nifty IT index
- 100% investment in Nifty IT index

Investment Amount of ₹10,000 in Market Phases	100% Nifty FMCG	50% Nifty FMCG & 50% Nifty IT	100% Nifty IT
2008 Crash - Max. Drawdown	-35.6%	-45.7%	-55.8%
Value at end of 2008	₹8,040	₹6,290	₹4,540
Value at end of 2009	₹11,385	₹11,730.5	₹12,076

Source: NSE, Finology Research Desk

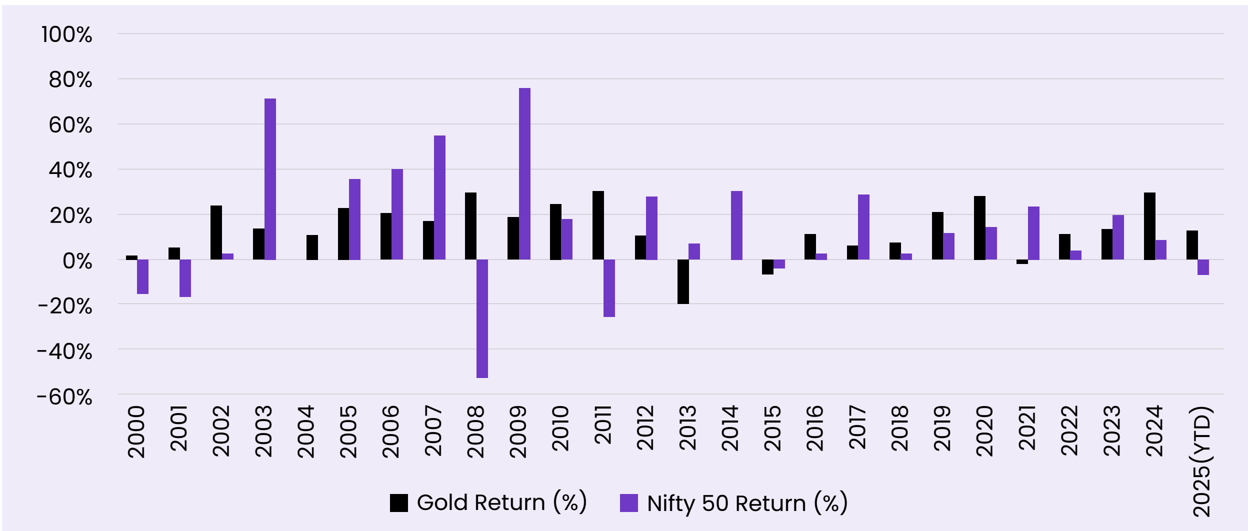
Clearly, the 50:50 portfolio has offered **better returns than the FMCG-only portfolio** and **lesser drawdown than the IT-only portfolio**, thus providing a good balance of risk and returns. This is why, it is important that when you make investment decisions during this dip, do consider your sectoral allocation as well.

Once you have sorted it out at a sectoral level, then comes allocation to individual securities. For a portfolio of 25-30 stocks, **try not to allocate more than 5-7% to any particular stock**.

8 HEDGE USING GOLD

Gold has historically proven itself as a good hedge against market volatility. And evidently so, you see– **only in 3 out of the last 25 years**, gold has delivered negative returns.

Annual Returns - Gold Vs Nifty 50



Source: Goldprice.org, SOIC, Finology Research Desk

In **80% of the years** (excluding 2025 YTD), whenever Nifty 50 delivered negative returns, **gold outperformed Nifty 50** by delivering positive returns. Moreover in Nifty 50's worst performing years: 2008 (-52%) and 2011 (-25%), **gold delivered 30%+ annual returns**.

Gold outperforming Nifty 50 in its Correction Periods		
Year	**Annual Return - Nifty 50**	**Annual Return - Gold**
2000	-15%	1%
2001	-16%	6%
2008	-52%	30%
2011	-25%	31%
2015	-4%	-6%
2025 (YTD)	-6%	13%

Source: Goldprice.org, SOIC, NSE, Finology Research Desk

A study conducted by Prime Investors concluded that a **balanced portfolio of equities and gold** tends to deliver superior risk-adjusted returns as compared to an equity-only portfolio. The key insights observed from the study are:

- As an investor went from a 100% equity allocation to a 40% gold : 60% equity allocation, the portfolios' **average rolling returns improved from 12.1% to 13.4%** over the long term.
- A gold allocation improved the investor's odds of **beating inflation** (more than 6% return). But this benefit **maxed out at a gold allocation of 20%**.

So, having **10%-20% of your portfolio investments in gold** can provide diversification benefits and a good hedge against the uncertainties. Of course, you should consider your allocation, risk profile and objectives before deciding.

By gold, we don't mean physical gold. Digitalised forms of gold like Gold ETF and SGB are better alternatives. You can check out our best picks among Gold ETFs in Finology Recipe's **Free Reports.**

9 HOLD SOME CASH

In bear markets, investors often tend to be opportunistic and invest all the dry powder cash once they see a fall in stock prices. Some even break into their emergency funds to invest in the markets.

However, that is not at all a wise move. Investors should always keep some cash as a buffer. It serves 2 important purposes.

- It helps you provide for any unknown emergency financial needs so that **you don't have to liquidate your investment portfolio as much**.
- No one can tell whether it's already the trough of the dip and whether the market will bottom out. Having, say, **5-10% of your portfolio in cash** at any point of time can help you benefit from further dips, because as American author H. Jackson Brown, Jr aptly puts it–

> ***"Opportunity dances with those already on the dance floor."***

Rather than going all in at once, **holding some cash** can help you tap into opportunities that come your way.

10 TAX LOSS HARVESTING

Tax Loss Harvesting is the practice of selling an asset at a loss to help investors reduce or offset taxes on any capital gains income subject to taxation.

The bear market in the last month of the financial year creates a good opportunity for investors to harvest their tax losses. One can sell their loss-making stocks and simultaneously buy them back. Although this will involve minimal transaction charges, it would result in the unrealised losses getting realised, which can then be adjusted to **set off any capital gains taxation**.

For example, suppose you hold the following stocks in your portfolio:

Stock	Investment	Current Value	Unrealized P/L
Stock A (Loss)	₹6,00,000	₹5,00,000	**-₹1,00,000**
Stock B (Loss)	₹6,00,000	₹4,50,000	**-₹1,50,000**
Stock C (Gain)	₹6,00,000	₹8,80,000	**+₹2,80,000**
Stock D (Gain)	₹5,60,000	₹8,40,000	**+₹2,80,000**

Here's how you can do tax loss harvesting:

- You sell Stock A & B, booking ₹2,50,000 loss.
- You book profits in Stock C & D with ₹5,60,000 gain.
- You adjust losses against the gains = 5,60,000 - 2,50,000= 3,10,000.
- Net taxable LTCG = ₹1,85,000 (3,10,000 - 1,25,000 exemption).
- Tax (12.5%) = ₹23,125

By utilising tax loss harvesting, you could reduce your tax liability from ₹54,375 (without booking losses) to ₹23,125— thus **saving ₹31,250**. You can now repurchase stocks, maintaining your investment while lowering taxes.

THE BOTTOM LINE

Sometimes when we think about what the celebrated super investors do differently, the answer is more than the skill or the resources– it's the "mindset". The magic of compounding, power of discipline and a good EQ is what it takes to win it big in investing. There is a very interesting African proverb that sums this up–

> ***"A cat that dreams of becoming a lion must lose its appetite for rats."***

So, if you too want to make big money, focus on the long term. If the correction is causing you to panic, you need to stop reacting over daily price action, and if you can't, stop tracking it at all. And if you can't resist your urge to track it, get rid of your trading apps– that's good for your portfolio and mental health.

Use the time to read books, letters from investing legends, history of markets and basically any piece of investing wisdom you can get your hands over. Upgrade your knowledge and see knowledge do its wonders.

The richest 1% think long term. Can you?

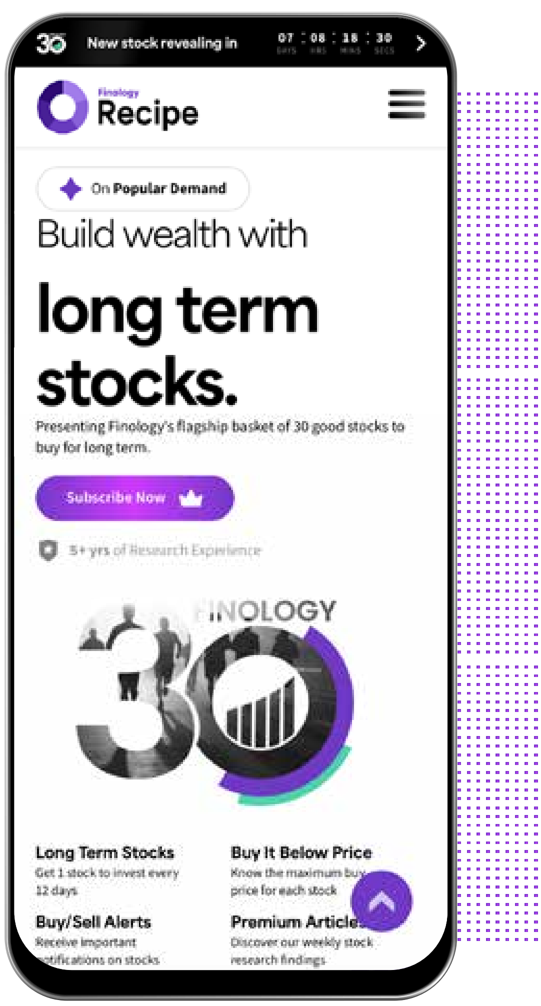
Everything boils down to what you want - thrills or wealth?

If you are serious about your wealth creation, invest **strictly for long term.**

- No portfolio circus
- No unwanted risks
- No frequent churns
- No stocks for thrill
- No get-rich-quick ideas

FINOLOGY 30

Finology's Flagship Long-term Stock Basket



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