

Dear Reader,

Trump induced volatility is hitting the Indian markets yet again. Indian markets have given up all the gains from hope-rally of 2 weeks, the hope being better relations with the US. With earnings nowhere in sight and constant FII selling pressure, we maintain our call on Nifty near term top at 25,700 in our [June 28th newsletter](#). To add salt to injury, INR has declined to lifetime lows vis-a-vis USD. This is why we maintain diversification as the best antidote to vagaries of the markets.

Investing is half fundamentals, quarter maths and quarter psychology. Those percentages are not scientific numbers - but you get the idea. We talk about fundamentals and maths all the time. Today, I want to talk to you about psychology.

One important determinant of your returns is your psychological make up. As someone said, volatility is the price we pay for returns. Studies show that investors make less returns in a scheme - they enter when the scheme has done well and exit when the scheme performance eventually falls off. Part of the explanation for fund performance falling is that it becomes difficult to manage large AUMs. The other factor is mean reversion! Therefore, it becomes extremely important to know yourself so that you can stick with investments and don't buy too high and sell too low.

The first kind of investors are momentum investors - they tend to buy stocks that are doing well. They get happiness from immediately seeing green in their position! The hard part here is knowing when to get out and most investors either get out too early or hold on too late.

The second type of investors are value investors - they hunt for value. Value investors have a lot of patience and understanding of fundamentals. They limit the downside and hope that upside comes in due time. Value investors often suffer from the 'value trap' - they'll make money only when the broader market sees value in their stocks. The now famed ex-CIO of HDFC AMC, Prashant Jain, received enough brick bats in 2018-2020 when he was overweight on PSU stocks and underperforming the market. Some of the well known investors are value investors - including Warren Buffet.

The third kind of investors are contrarians - they usually will do the opposite of what the market is doing. They are betting on mean reversion - e.g., the people who'll buy IT stocks now in the hope that they'll recover. Mean Reversion principle is in direct contrast with Wisdom of the Crowds. The market is often right when it is discounting the price of certain stocks. When mean reversion is played along with fundamentals, it is actually value investing.

The fourth type call themselves Growth Investors. They are usually OK with paying a premium for Growth - when they see topline or profits growing. The trap they may get into is Terminal Value miscalculation. The growth is sometimes temporary and sometimes has longevity.

27-Sep-2025

We are not making judgement on the various types of investment philosophies. We believe that each style has merits or demerits. But an individual investor would be better served by first knowing themselves - what type of investor they are and how much risk they can actually take.

We often play a combination and pride ourselves in being agnostic & scientific. If we were to assemble pithy (but useful) quotes about investing - "Pragmatism over Dogmatism" would be somewhere in the top 10. Being fans of Charlie Munger, the author did not believe in Gold as an investment because it has no cash flows and cannot be valued. But in 2022, I changed my views and bought Gold. The world changed in 2022 - US had shown countries cannot trust USD as the only reserve by cutting Russia out of Swift and freezing their sovereign assets. Central banks of the world were responding by accumulating gold. From Oct '16 to Oct '22, gold returned a mere 9.4% CAGR, while from Oct '22 till now, gold has grown at a CAGR of ~30%. Please don't treat this as a recommendation - our models project a more modest return going forward but still include allocation to gold based on historical volatility and correlation with other asset classes.

We won't be publishing the newsletter next week - it is the festive season and you would be out spending time with near and dear ones. Our clients can rest assured that our algorithms and experts are watching out for events and will contact our clients for action, if any is warranted.

Happy Dussehra and Happy Diwali,
Wealth Beacon Team

1. *If you haven't already gotten your portfolio analyzed and streamlined, you may contact us at:*
contact@wealthbeacon.ai / <http://www.wealthbeacon.ai>