

One IPO lot will not hurt you. Forty of them might

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Maxim: *Owning stocks is like having children — don't get involved with more than you can handle.* — Peter Lynch

India's IPO season is quietly turning small investors into parents of dozens of companies. Lynch's rule asks a blunt question: how many can you actually raise?

The danger in most small portfolios is not one bad stock. It is thirty stocks nobody is watching.

On 21 October, the Jio Platforms issue opens for bids. A retail lot is 12 shares, about ₹13,428 at the top of the price band, and Reliance shareholders get a quota of their own, [Business Today reported](#). It caps a busy run. India has had 96 IPOs so far in 2026, after 103 in 2025, and smaller issues have averaged listing gains of about 17%, according to a Kotak report cited by [Business Standard](#).

Picture an investor who applies to most of the big ones. Every allotment adds a line to her demat statement. Add a few tips from friends, two stocks from a YouTube video and a holding inherited from a parent. Two years on, her CAS lists forty names, most worth less than a monthly phone bill. She cannot say what half of them make.

The allotments do more than add clutter. Because retail shares in oversubscribed Indian IPOs are allotted by lottery, Santosh Anagol, Vimal Balasubramaniam and Tarun Ramadorai could compare the lucky and the unlucky. Investors whose randomly allotted shares rose went on to trade their other stocks more, raising their trading volume by an average of 7.2% over the next six months, [they wrote on VoxEU](#). A stroke of luck was read as proof of skill.

What Lynch actually prescribed

Peter Lynch put the rule among his lessons in *Beating the Street* (1993). The part-time stock picker, he wrote, probably has time to follow eight to twelve companies, and need not own more than five at any one time, as the [Motley Fool's summary](#) of his rules records.

There is an irony here, and it is the key to the rule. Lynch's Magellan Fund held more than 1,400 different stocks, the [Deseret News reported](#) in 1990. He was not contradicting himself. Running a fund was his full-time job, with analysts and company visits behind every holding. The number of children you can raise depends on how many hands are in the house. For someone with a day job, it is a handful.

Academics give an awkward answer to the same question. Meir Statman's classic 1987 study in the [Journal of Financial and Quantitative Analysis](#) put a well-diversified portfolio at 30 to 40 stocks. In India the bar may be higher: Rajan Raju and Sobhesh Agarwalla of [IIM Ahmedabad](#) found that it took 40 to 50 Nifty 500 stocks to remove most of the risk that diversification can remove.

So Lynch's five and the academics' forty disagree. Both are right about different investors. The study of US brokerage accounts by William Goetzmann and Alok Kumar found that a vast majority of individual investors were [under-diversified](#), and that they diversified naively, adding names without asking whether those names moved together. Zoran Ivković, Clemens Sialm and Scott Weisbenner

found that households with [concentrated portfolios](#) made better trades than diversified ones, especially those with large accounts, but took more total risk for it, with lower risk-adjusted returns. Concentration paid only for people who knew what they owned.

Few is not the same as safe

Concentration is not a virtue on its own, and two very different investors show why.

Bill Ackman's Pershing Square Holdings runs on Lynch's number: a substantial majority of its money typically sits in eight to twelve core holdings, its [July 2026 fact sheet](#) says. It has full-time analysts and access to managements that no retail investor gets. Even so, from the end of 2012 to July 2026 it returned about 12.1% a year against 15.0% for the S&P 500, and it was down 9.2% in 2026 while the index was up 10.1%. A few well-researched children can still disappoint.

Then there is the extreme. Bill Hwang's Archegos Capital piled borrowed money into a small number of stocks; when it collapsed in March 2021, banks lost more than \$10 billion, and in November 2024 Hwang was [sentenced to 18 years](#) in prison for fraud. Concentration plus leverage is not a parenting style. It is a fire hazard.

India's small investors are drifting the other way: towards more, smaller names. The share of individual investors' holdings in Nifty 50 companies fell to a record low of 33.4% in April–June 2026, as money moved into mid, small and micro caps, according to an [ANI report](#) on NSE data. Smaller companies get less coverage from analysts and the press. They need more parenting, not less.

The two honest choices, and the bad middle

Put Lynch and the academics side by side and the answer becomes clearer. There are two coherent ways to own shares. You can own a few companies you follow closely, reading their results, knowing what each one sells and what would make you leave. Or you can own the whole haystack through an index fund and follow none of them. Both are defensible.

The forty-name IPO portfolio is neither. It is too large to follow and too random to diversify well, since a cluster of recent listings and small caps can rise and fall together. It carries the risk of concentration without the knowledge that justifies it, and the effort of diversification without the protection.

The test is not a number. It is whether you can say, for every holding, why you own it and what would change your mind. A useful check is the quarterly results season: if a company you own reports and you do not read even the headline, it has become an orphan in your portfolio.

If you do one thing: Download your CAS and write one sentence next to each stock: why you own it, and what would make you sell. Any holding you cannot explain belongs either in the core you follow, or in an index fund that does the watching for you.

Count the children before the next one arrives

NSE now counts 13.5 crore unique investors, and roughly two in three of those who traded shares in August traded less than ₹1 lakh in the month, its [September 2026 Market Pulse](#) shows. These are Lynch's part-timers. The IPO calendar will keep offering them new lots, each small enough to feel harmless.

None of this is an argument against applying. It is an argument for deciding, before the allotment arrives, whether this one will be raised or merely owned. Lynch's line is gentle, almost domestic, and that is why it works. Nobody adopts a fortieth child because the paperwork was easy.

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