

Many stocks never beat a bank deposit. Choosing well is the whole game

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Maxim: *Well-chosen stocks beat bonds; badly chosen ones don't beat cash.* — Peter Lynch

"Equities beat everything in the long run" is true of the market. It is not true of the average stock, and the gap between the two is where most investors get hurt.

The stock market rewards owners handsomely over time. Most individual stocks do not.

In 2018, the finance professor Hendrik Bessembinder of Arizona State University looked at the lifetime returns of nearly 26,000 American stocks from 1926 to 2016. Fifty-eight per cent of them failed to beat the return on one-month Treasury bills, the dullest cash investment there is. Just 1,092 companies, about 4% of the total, accounted for all the wealth the market created above that cash return, and 86 of them generated half of it ([ASU W. P. Carey](#)).

He later widened the study to more than 64,000 stocks around the world from 1990 to 2020. Outside the United States, 57.4% of stocks underperformed one-month US Treasury bills, and the top 2.4% of firms worldwide accounted for all \$75.7 trillion of net wealth creation ([Financial Analysts Journal, 2023](#)).

The market as a whole does beautifully because a small number of extraordinary companies carry it. Own one of them and you can do better than any bond. Own the wrong ones and you would have been better off with cash.

Lynch's two-sided rule

Peter Lynch, who ran Fidelity's Magellan fund, put both halves into one of the golden rules he listed in *Beating the Street*. In the long run, he wrote, a portfolio of well-chosen stocks and equity mutual funds will always outperform a portfolio of bonds or a money-market account. And in the long run, "a portfolio of poorly chosen stocks won't outperform the money left under the mattress" ([Moomoo](#); [Motley Fool Australia](#)).

The first half is the line equity enthusiasts quote. The second half is the one that matters for anyone picking their own stocks. Equities as an asset class have a strong long-term case. That does not transfer automatically to whatever shares happen to be in your demat account.

India's starkest recent reminder is Jet Airways. Once one of the country's best-known airlines, it was grounded in 2019 and went through years of insolvency proceedings. When the Supreme Court ordered its liquidation in November 2024, around 1.48 lakh retail shareholders still held about a fifth of the company, [IANS reported](#). In a liquidation, shareholders stand last in line, behind lenders and other creditors. A fixed deposit opened the year Jet was grounded would have paid interest every year since.

What the Indian numbers show

India's listed companies show the same pattern, if less extremely. Marcellus studied BSE 500 companies on a buy-and-hold basis and reported in November 2023 that from September 2006 to September 2023, roughly 65% of them underperformed the BSE 500 total return index itself, while 43% underperformed three-month Treasury bills. Over the same period, the index returned about 12.3% a year against 6.4% for T-bills ([Marcellus](#)).

The swings along the way were brutal too. More than 70% of BSE 500 stocks suffered a fall of over 50% at some point within a ten-year period, the study found. And these were the survivors large enough to be in the BSE 500, not the thousands of smaller listed companies that Marcellus did not analyse.

So Lynch's rule holds in India, with a nuance. In this sample, somewhat more stocks beat cash than in Bessembinder's global one, though the periods and methods differ. But most still failed to beat the index, and a large minority failed to beat the safest short-term government paper. Picking stocks in India is not a fool's game. It is a game in which the typical pick loses to the simple alternative.

What "well-chosen" has to mean

1. **Can I explain why this company will still be earning more in ten years?** Lynch's golden rules speak of owning "superior companies". If your reason fits in a tip or a chart pattern, it is not a reason.
2. **Is the balance sheet strong enough to survive a bad decade?** Heavy debt is a common way for companies to fail. Jet Airways was a household name long before it was an insolvency case.
3. **Am I concentrated enough to matter but diversified enough to survive?** Because a small share of stocks drives most of the gains, owning too few raises the odds of missing them entirely. A dozen or more well-researched names across sectors is much safer than three favourites.
4. **Would I be better off in a broad index fund?** If you cannot answer the first three questions with confidence, the honest answer is yes. An index fund owns the rare big winners automatically.
5. **Am I comparing my picks with the right benchmark?** Check once a year whether your stocks, taken together, have beaten both a bank deposit and a broad index over several years. If they have not, Lynch's second sentence is describing you.

The decision rule follows. Pick individual stocks only with money you can leave for a long time, only in companies you can explain, and only alongside a diversified core. Judge the results against both cash and the index, and be willing to conclude that picking is not for you.

Both sentences, not one

It is tempting to quote only the cheerful half of Lynch's rule. Stocks beat bonds; equities win in the long run; stay invested. All true of the market as a whole.

But Lynch, a professional stock picker, chose to add the second sentence. The market's long-term reward goes to the few companies that compound for decades, and to the investors who own them or the whole market. For everyone else, the mattress, or a humble deposit, would have done better.

Sources

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- [Marcellus: The risks of owning an individual stock \(21 November 2023\)](#)

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