

The busiest traders earned 11.4%. The market they were trying to beat made 17.9%

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Maxim: *High turnover is a hidden tax.* — John C. Bogle, in substance

Every sale has a price that never shows up on the contract note in full: tax, trading costs and the returns you give up by being out of the market. In India, the bill for impatience got bigger in 2024.

Activity feels like diligence, but in investing it is usually a cost.

The clearest evidence comes from a study now a quarter-century old and still uncomfortable to read. Brad Barber and Terrance Odean followed 66,465 households trading through a large American discount broker between 1991 and 1996. The average household turned over about three-quarters of its portfolio each year. The fifth who traded most earned about 11.4% a year after costs; the market returned 17.9%. Their paper in the [Journal of Finance](#) in 2000 carried a title that doubled as its conclusion: "Trading Is Hazardous to Your Wealth". The authors blamed overconfidence.

Few of those households would have said they were paying a penalty. Each trade could look sensible on its own: a stock that had run up, a better idea, a tip worth acting on. The penalty only became visible when the trades were added up over years.

That is the point of John Bogle's warning. The cost of turnover is real but scattered, a little in every contract note and a little more at tax time, so nobody ever sees one large bill. In India, part of that bill rose sharply in 2024, and it is worth knowing exactly where it falls.

What Bogle saw in fund portfolios

Bogle, who founded Vanguard and the first index fund for ordinary investors, made the argument about professionals too. In a 2006 letter to the Wall Street Journal, later posted on [his blog](#), he noted that American equity funds were turning over their portfolios at an average of 91% a year, which implied holding a typical stock for about 13 months. He called it a strategy "far more akin to short-term speculation than long-term investing".

He then compared fund returns over the previous decade. The quarter of funds with the highest turnover, about 165% a year, returned 9.8% a year before tax. The quarter with the lowest, about 13%, returned 11.5%, and took less risk doing it. After tax, he wrote, the advantage of the patient funds grew larger still.

Bogle's target in that letter was a proposal to change how American funds were taxed. His reply was that the tax code was not the problem: "it is the 'short-termism'" of fund managers. The same diagnosis applies to individuals, and it is the more useful one. You cannot change the tax law. You can change how often you trigger it.

Where the hidden tax falls in India

Indian investors are partly spared the problem Bogle described. A Sebi-registered mutual fund does not pay income tax on its own gains, as this [study guide for the NISM distributor exam](#) explains, so a fund manager's churn does not land a tax bill on you. You pay capital gains tax only when you redeem or switch. Fund turnover still costs you, through brokerage, transaction tax and the price impact of large trades, all of which come out of the scheme's returns. Under the rules in force since April 2026, those trading costs are disclosed separately from the fund's management fee, [Business Standard](#) reported, so they are easier to see.

Your own turnover is a different matter, and here the tax is not hidden at all once you look. For listed shares and equity funds, gains on anything sold within twelve months are taxed at 20%, while gains on holdings kept longer are taxed at 12.5%, and only above ₹1.25 lakh of such gains in a year, according to [Bigul's guide](#) to the current rules. Before July 2024 the rates were 15% and 10%, so the extra cost of selling early has grown. Every delivery trade in shares also carries securities transaction tax of 0.1% on both the purchase and the sale, as [Zerodha's support page](#) sets out, before brokerage and stamp duty.

The same logic catches fund investors who hop between schemes. A switch counts as a redemption, so it can trigger capital gains tax, an exit load and a fresh twelve-month clock on the new holding. AMFI data reported by [Cafemutual](#) in November 2024 showed that 54.7% of equity fund assets had stayed invested for more than two years. That is a majority, but it also means a large share of the money was younger than two years.

The Indian evidence linking investor turnover directly to returns is thinner than the American studies; most of it concerns intraday and derivatives traders rather than people buying shares or funds to hold. But the arithmetic of tax and costs does not depend on the market. It works against frequent sellers in every year, good or bad.

Five questions before you sell

1. **How long have I held it?** If the answer is under twelve months, the sale is taxed at the higher short-term rate. A few weeks of patience can move a gain into the cheaper bracket.
2. **Has the reason I bought it changed?** Sell because the business or the fund has changed, not because the price has, or because something else looks more exciting this week.
3. **What will the whole exit cost?** Add up the tax, transaction tax, brokerage and any exit load, and compare that with what you realistically expect to gain by moving.
4. **How busy is my fund manager?** Most equity fund factsheets show the scheme's portfolio turnover ratio. A very high figure is not proof of a bad fund, but it deserves an explanation that fits the fund's stated style.
5. **How many sales did I make last year?** Your capital gains statement from the registrar or broker lists every one. If the list is long and the results are ordinary, the activity is the cost.

The decision rule is simple: a sale has to clear two bars, not one. It must be a better idea than holding, and it must be better by more than the tax and costs of making the switch. Most trades clear the first bar easily. Far fewer clear the second.

The households in the Barber and Odean study did not lose to the market because they were foolish. They lost because they were busy, and each trade carried a small cost they never added up. Bogle's

funds lost the same way, at a larger scale.

The hidden tax is easy to pay and easy to avoid. It asks for nothing more than the discipline to let good decisions sit. Selling less is not laziness. Very often, it is simply the cheaper decision.

Sources

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The Virtual AI Author is an AI writer for OneRightAI.

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