

Value stocks rose 166% in one year. Four years later they trailed the market

Published by OneRightAI · 5 min read

Maxim: *If you have the stomach for stocks, but neither the time nor the inclination to do the homework, invest in equity mutual funds.* — Peter Lynch, with his advice to own funds of different styles

Equity funds solve the time problem. They do not solve the choice problem. Lynch's answer to that was simple: no single style wins every year, so own more than one.

The style of investing that wins this year is rarely the one that wins next year.

Consider what happened to Indian value stocks after the 2008 crash. In 2009, NSE's Nifty Value index, which holds companies that look cheap on measures like earnings and book value, rose 166%. The Nifty 50 rose 76%, a spectacular year by any normal standard, and still trailed by a wide margin. An investor who looked at that result could easily conclude that buying cheap stocks was the only strategy worth having.

Then the leadership moved. In 2013 the same value index fell 2% while the Nifty 50 gained about 7%. In 2015 it fell almost 8%, while the Nifty Alpha index, built from stocks that had recently beaten the market on a risk-adjusted basis, rose about 17%. In 2016 the roles shuffled again: quality stocks, the steady compounders that had shone in 2009 and 2012, fell almost 7% while the Alpha index rose nearly 20%. The figures come from an [NSE Indices research paper](#) on its factor indices, which includes back-tested history for the years before each index was launched, and which notes plainly that single-factor indices "tend to display cyclicity".

No style led every year. Each had stretches when it looked like genius and stretches when it looked broken.

What Lynch actually advised

Peter Lynch ran Fidelity's Magellan fund from 1977 to 1990, earning an average of 29.2% a year against about 15.8% for the S&P 500, as [his Wikipedia biography](#) records. He spent much of his writing urging ordinary people to research companies themselves. But he was realistic about who would. In *Beating the Street*, published in 1993, he set out the rule at the top of this page in his list of golden rules: if you have the stomach for stocks but not the time or inclination to do the homework, invest in equity mutual funds. Most people, he told [The Christian Science Monitor](#) that year, lack the time or contacts to find the next big winner.

He did not stop there. Two more of his rules matter as much: "You should own a few different kinds of funds, with managers who pursue different styles of investing," and "Investing in six of the same kind of fund is not diversification." In the same interview he described liking a mix of growth funds, value funds and blue-chip funds.

The reasoning is the pattern above. Every style goes through long spells out of favour. A value manager can be right about her companies and still trail the market for three years because the market is paying up for growth. If that is the only fund you own, those three years test your patience,

and many investors give up at exactly the wrong moment. Owning two or three styles that take turns smooths the ride enough to stay invested.

Two updates for an Indian investor

The first update makes Lynch's advice easier to follow. Since Sebi's scheme categorisation rules of October 2017, every equity fund in India must sit in a defined category, such as large-cap, flexi-cap, mid-cap, value or contra, or focused, and each fund house can run only one scheme per category, apart from index funds, fund-of-funds and sector funds, as [FundsIndia explained](#) at the time. The labels are now standard. A portfolio of five large-cap funds from five fund houses is visibly one style bought five times, which is exactly what Lynch warned against.

The second update is less comfortable for active funds. Over the ten years to December 2024, 74% of Indian large-cap funds trailed their benchmark, according to S&P Dow Jones Indices' [SPIVA India scorecard](#). Lynch wrote before low-cost index funds were widely available to Indian savers. Today, for the large-cap part of a portfolio, a broad index fund is a reasonable style in its own right: it will never beat the market, and it will rarely trail it by much. Active managers may earn their fees more readily in less efficient corners, though the same scorecard found many mid- and small-cap funds lagging too.

Neither update changes the core of the rule. Funds remain the sensible answer for people without time to study companies, and owning more than one style remains the sensible way to hold them.

Checking your own fund portfolio

Pull your consolidated account statement and look at your equity funds together rather than one by one.

1. **What style is each fund?** Read the category on the factsheet, then the manager's stated approach. Write one word next to each: index, quality, value, growth, mid-cap, small-cap.
2. **How many styles do you actually own?** If most of the list says the same word, you own one style several times, however many fund names appear.
3. **Do the top holdings repeat?** Compare the top ten holdings across your funds. If the same banks and IT companies head every list, the funds will rise and fall together.
4. **Is there a low-cost core?** Consider whether an index fund could do the large-cap job more cheaply than the active funds you hold there.
5. **Would you hold each fund through three bad years?** If a style's spell out of favour would make you sell, you either own too much of it or do not understand why you own it.

The decision rule: aim for two to four equity funds that pursue clearly different styles, with a broad index fund as a sensible core for most people. Judge each fund against its own style's benchmark over five years or more, not against whichever style happened to lead last year. When one fund trails for a year while its style is out of favour, that is the diversification working, not failing.

The investor who bought only value funds after 2009 had a reason; the 166% was real. But it described a year that had ended, not the years to come. Within four years the same style trailed the market, and others took their turn.

Lynch's advice works because it does not ask you to predict which style comes next. Buy funds if you lack the time to research companies. Then make sure they are different enough that one of them is

usually doing its job while another waits for its turn.

Sources

- [NSE Indices: NIFTY Multi-Factor Indices whitepaper \(data to May 2017\)](#)
- [The Christian Science Monitor: Lynch: Old-fashioned legwork is key to good investing \(12 April 1993\)](#)
- [Hedge Fund Alpha: Peter Lynch's investing principles and 25 golden rules](#)
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- [S&P Dow Jones Indices: SPIVA India Year-End 2024 \(8 April 2025\)](#)
- [FundsIndia: What Sebi's circular on scheme category definitions implies \(9 October 2017\)](#)

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