

India once had three weeks of import cover. Betting against it still lost

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Maxim: *Never bet against America.* — Warren Buffett, and the Indian version of that bet

Buffett's line is not patriotism. It is a claim about long-run odds: that a growing, adaptable economy tends to outlast its crises. India has tested that claim harder than most, and so far the pessimists have been on the losing side.

The moments when betting against a country feels most sensible are usually the moments when it costs the most.

In the summer of 1991, India came close to running out of money. Foreign exchange reserves had fallen to roughly three weeks of essential imports. To raise emergency loans, the government pledged 67 tonnes of gold: 47 tonnes airlifted to the Bank of England in late May, and 20 tonnes to Union Bank of Switzerland, according to [Wikipedia's account](#) of the crisis. On 1 and 3 July the rupee was devalued by about a fifth in two steps, and a programme of economic reform began.

It is hard to imagine a more reasonable moment to give up on Indian assets. The country had pawned its gold. Its currency had just been cut. Its government was negotiating an emergency loan from the IMF.

The Sensex rose 85.8% that year, according to [annual return data](#) compiled by TopForeignStocks, and a further 37% in 1992. Part of that was the reforms, and part was the speculative excess of the securities scam that broke in 1992, so the short-term numbers flatter. But the longer record does not depend on any single year. From its base of 100 in April 1979 to May 2021, the Sensex earned roughly 17% a year, counting dividends from 1996 when that data begins, by [freefincal's calculation](#). Over those 42 years the country lived through a balance-of-payments crisis, two stock market scams, the dotcom bust, the 2008 crash and a pandemic.

What Buffett actually meant

Warren Buffett has used the phrase for decades, and he wrote it plainly in his [2020 letter](#) to Berkshire Hathaway shareholders. America, he argued, had been an unmatched incubator for human potential in its 232 years, despite progress that was “slow, uneven and often discouraging”. His conclusion: “Never bet against America.”

The argument is about direction, not timing. Buffett has never claimed American markets go up every year; Berkshire's own shares have fallen by about half or more three times since 1973, as he set out in his [2017 letter](#). His claim is that an economy with a growing, productive population, working institutions and the ability to correct its mistakes will, over decades, make its businesses more valuable. Crises interrupt that process. They rarely reverse it.

That is why betting against such an economy is a poor wager even when the news is grim. The pessimist has to be right about the timing and the depth of decline, and has to keep being right. The patient owner only has to be right about the long-run direction.

The Indian version, and its limits

For an Indian investor, the same logic applies at home, and the record since 1991 is the strongest case for it. Every decade brought a moment when giving up looked prudent. The Sensex fell 23.8% in 2000 and 18.3% in 2001 as the dotcom bubble burst. It fell 52.5% in 2008. Each time, the businesses underneath kept growing, and in 2009 the index rose 79.7%.

Two caveats keep the maxim honest. First, it is not a law of nature. Japan was the confident economic power of the 1980s, yet its Nikkei 225 index took until February 2024 to climb back above its 1989 peak, [Business Standard reported](#). A country's growth story can be right while the price investors paid for it was wrong.

Second, India's record is not unique. The same freefincal study found that the S&P 500, measured in rupees, earned about the same 17% a year as the Sensex over those 42 years, because the rupee's fall against the dollar added to American returns. The lesson is not that India is special. It is that betting on the long-run growth of productive economies has paid, and betting on their collapse has not.

That suggests the sensible version of the bet. Back your home economy, which you understand and where your goals are priced, but do not make it your only bet, and never pay any price for it.

Making the bet without being broken by it

A long-run bet only pays if you are still holding it in the long run. That sounds obvious, but most investors who lose money on a growing economy do so by leaving at the bottom, not by owning it at the top.

So make the bet in a form you can keep through a crisis. Own a broad slice of the market, through an index fund or a diversified equity fund, rather than a handful of stories. Hold enough in safe assets that a 50% fall in shares would not force you to sell them to pay for school fees or a hospital bill. Never use borrowed money for this bet; Buffett's own record of halvings is the reason. And keep investing through bad years, because the bad years are when the bet is cheapest to place.

When the next crisis arrives, and the headlines insist this time the damage is permanent, remember 1991. The pessimists then had better arguments than most pessimists ever do. They were still wrong about the long run.

If you do one thing: Write down, today, what you will do the next time Indian shares fall by a third or more. Decide whether you will keep your SIPs running, and whether you will add to them. A decision made in calm is far easier to follow than one made in a panic.

In 1991 India sent its gold abroad as collateral. Over the following decades its companies grew far beyond what anyone pricing them that summer could have imagined. The investor who sold in despair that year was being entirely reasonable, and entirely wrong.

Buffett's maxim is not a promise that markets rise. It is a reminder that the people betting on collapse need to be right repeatedly, while the people betting on growth only need to be patient. For an Indian saver, that is a bet worth making, sensibly sized and never with borrowed money.

Sources

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