

Yes Bank fell 98%. The Sensex halved. Only one loss was permanent

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Maxim: Rule No. 1: Never lose money. Rule No. 2: Never forget rule No. 1. — Warren Buffett

Buffett's most quoted rule is not about avoiding red numbers on a screen. It is about avoiding the losses that never come back.

Every investor will watch a portfolio fall; the rule is to make sure no fall is final.

Taken literally, Buffett's two rules read like a joke, and he has broken the literal version many times. In his [2017 letter](#) he listed four occasions when Berkshire Hathaway's own share price dropped sharply: 59% in 1973–75, 37% in October 1987, 49% in 1998–2000 and 51% in 2008–09. If the rule meant "never see a loss", the man who coined it would have failed it four times. It means something narrower and more useful: never take the kind of loss you cannot recover from.

Two Indian episodes show the difference better than any definition.

Two falls, two endings

On 20 August 2018, Yes Bank shares touched ₹404 in intraday trade, an all-time high, according to [Business Standard](#). Eighteen months later the story had turned completely. On 5 March 2020 the Reserve Bank of India superseded the bank's board and placed it under a 30-day moratorium; depositors could withdraw no more than ₹50,000 for the month, except for emergencies such as medical treatment ([Wikipedia summary of the RBI action](#)).

The next day the share hit a record low of ₹5.55, [The Week](#) reported. Someone who had bought at the peak had lost about 98% of the money.

The bank itself was rescued. State Bank of India agreed to buy 725 crore new shares at ₹10 each ([Business Standard](#)), and the reconstruction scheme locked 75% of existing shareholders' holdings for three years, sparing only those with fewer than 100 shares. In July 2020 the bank raised ₹15,000 crore through a follow-on offer at ₹12 a share ([Business Standard](#)). Depositors were protected. The shareholder who had paid ₹404 was not. More than four years after the peak, in December 2022, the stock was quoted near ₹21, according to [Kuvera](#). The bank survived; the capital did not come back.

Now the second fall. The Sensex began 2008 just after a record high set on 10 January. It ended the year down 52.5%, by the [BSE annual figures](#) compiled by TopForeignStocks. Then it rose 79.7% in 2009. On 5 November 2010, in the Diwali muhurat session, it closed at 21,004.96, "a level never seen before", [Business Today](#) reported.

An index investor who held on through 2008 was back above water in less than three years. The investor who sold in panic in late 2008 turned a temporary fall into a permanent loss. Same market, same year; the difference was the decision, not the drop.

What makes a loss permanent

The reason the rule matters is simple. A fall of half needs a doubling just to get back to where you started, as a [Motley Fool column](#) on Buffett's rule put it in 2007. A fall of 98% needs a recovery so large that, for most companies, it never arrives. Deep losses are not just bigger; they are a different kind of thing.

Three routes lead there, and the two stories above cover all of them. The first is a business that breaks: when a company runs out of capital or trust, the old share price may simply stop being relevant. The second is a price paid that was too high to begin with. The same Motley Fool piece showed that many late-1990s technology leaders, bought at their peaks, needed gains of several hundred to several thousand per cent to recover.

The third route is being forced to sell at the bottom. Borrowed money is the usual culprit. Buffett's 2017 letter called his table of Berkshire's falls "the strongest argument I can muster against ever using borrowed money to own stocks," adding that "there is simply no telling how far stocks can fall in a short period." Money you need soon is the quieter version of the same trap: a school fee due next year turns a paper loss into a real one.

Even Buffett broke rule No. 1

He is candid about it. In his [2007 letter](#) he described buying Dexter Shoe in 1993 for \$433 million in Berkshire stock. The business became worthless, and because he paid in shares of a company that kept growing, he reckoned the true cost to Berkshire shareholders was not \$400 million but \$3.5 billion. "To date, Dexter is the worst deal that I've made," he wrote.

That is the rule at work: not a promise never to be wrong, but an honest accounting of which mistakes cost the most. Dexter hurt because the loss was permanent. Berkshire's four price falls did not, because the businesses underneath kept earning and nobody forced a sale.

The reason to revisit the rule is that every long rise in Indian markets brings in investors who have never lived through a halving. A portfolio built only in good years has not yet been tested. The test, when it comes, will not ask whether prices fell. It will ask whether any of the three routes to permanent loss was left open.

If you do one thing: Look at each holding and ask what you would do if it fell by half tomorrow: buy more, hold, or be forced to sell. Wherever the honest answer is "forced", because of borrowed money, a single stock that has grown too large, or money you need within a few years, fix that position now, while the market is still letting you choose.

Buffett's rule survives as a joke because the literal version is impossible. The serious version is not. Prices will fall, sometimes by half, and no one can say when. What an investor controls is whether a fall stays a fall or becomes a loss. Yes Bank's peak buyers and the Sensex holders of 2008 saw similar headlines; only one group had a way back. Never lose money, in Buffett's sense, means keeping that way back open.

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