

In 1992 a buyer paid ₹100 for fund units worth ₹20. History keeps repeating

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Maxim: *Never pay a premium for an ETF.* — Dhirendra Kumar

An exchange-traded fund is supposed to trade close to the value of what it owns. When the price runs far ahead, the extra is not an asset. It is a bet that someone will pay even more.

When you pay more for a fund than the value of what it holds, you are buying two things: the assets, and a hope that the gap will last.

Dhirendra Kumar of Value Research has told the story of how his career began. In 1992 his father sold 5,000 units of SBI Magnum Multiplier, a closed-end fund, at ₹100 each. The fund's net asset value was about ₹20. Someone on the other side of the trade paid ₹5 lakh for holdings worth roughly ₹1 lakh. Kumar says the episode sent him into a lifelong study of mutual funds, he wrote in a [September 2026 column](#).

The buyer in 1992 was not really buying the fund. He was buying the belief that another buyer would later pay even more. Whatever happened to the market, the extra ₹4 lakh had nothing underneath it. Its value depended entirely on someone else's enthusiasm.

How ETFs are supposed to stay honest

Exchange-traded funds were designed to stop this from happening. An ETF owns a basket of securities, and its net asset value is what that basket is worth. But investors buy and sell ETF units on the stock exchange, at whatever price buyers and sellers agree. What normally keeps the two close is a background mechanism: designated market makers and large investors can create new units from the fund when the price rises above value, and redeem units when it falls below. Each time they do, they earn the gap, and the gap closes.

The rules on the downside are explicit. A typical Indian ETF's scheme document, such as [DSP's Nifty 50 ETF](#), lets ordinary investors redeem directly with the fund house, up to ₹25 crore, if the units trade at more than a 1% discount to NAV for seven days in a row, or if quotes dry up. There is no matching protection for an investor who buys at a premium. If you overpay, the system has no duty to rescue you.

When the mechanism breaks

In India the mechanism has broken most visibly for funds that invest abroad. Mutual funds as a group may invest only a fixed amount overseas. In January 2022, with the industry close to its \$7 billion ceiling, Sebi told fund houses to stop fresh subscriptions to schemes investing overseas, [Business Standard reported](#). International ETFs could no longer create new units. Demand kept coming, supply did not, and prices drifted far above value.

Value Research later [tracked what that cost](#). On 31 December 2024, the Motilal Oswal Nasdaq 100 ETF traded at ₹214.2 against a NAV of ₹175.7, a premium of 22%. By 13 May 2025 the premium had

disappeared and the units traded at NAV. Over those months the fund's holdings rose slightly, by 0.5%. The investor who had bought on the exchange in December was down 17.6%. The index did nothing wrong. The premium did all the damage.

The same pattern has appeared elsewhere. In the United States, the Grayscale Bitcoin Trust, which had no way for investors to redeem shares for the underlying bitcoin, traded at a premium of about 29% in January 2021. By November 2022 it was trading at a discount of nearly 43%, [Decrypt](#) reported. Investors who paid the premium lost twice: once on the asset, and again on the gap.

The lesson keeps returning. In September 2026, with fund houses again at their overseas limits, Kumar noted that one international ETF traded at an 81% premium to its NAV, after its price jumped about 50% in a week while its index barely moved. "A similar moment," he called it, recalling 1992.

Before you press buy on an ETF

None of this requires expertise, only a habit of checking. A short routine protects you:

1. **Check the iNAV.** Fund houses and exchanges publish an indicative NAV during market hours, updated within seconds. Compare it with the price you are about to pay.
2. **Treat any gap above about 1% as a warning.** Small gaps come from timing and trading costs. Large, persistent ones mean the creation mechanism is not working.
3. **Ask why the gap exists.** If new units cannot be created, because of an overseas limit or a regulatory pause, the premium can last for months and then vanish suddenly.
4. **Use limit orders, not market orders.** In thinly traded ETFs, a market order can fill at a price well away from value.
5. **Look for the same exposure elsewhere.** An index fund or fund of funds that transacts at NAV, when open for investment, removes the premium problem entirely.

A simple decision rule. Pay NAV, or very close to it, and nothing more. If an ETF trades at a premium of more than about 1% and the gap does not close within a day or two, do not buy on the exchange. Wait, use a fund that transacts at NAV, or skip the exposure for now. If you already own units bought at a premium, separate the two parts of your holding in your head: the NAV part rises and falls with the market; the premium part can disappear on its own.

Kumar's warning is the same one his father's buyer ignored more than three decades ago. A fund's value is what it owns, not what the last trade said. ETFs were built to make that gap small and short-lived, and most of the time they succeed. When they cannot, because the doors to new units are shut, the price becomes a game of passing the parcel. The investor's job is simple: decline to play.

Sources

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