

Reliance Power drew five million applicants in 2008. By 2020 it traded at ₹1

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Maxim: *Respect the market — and know when to take a loss.* — Rakesh Jhunjhunwala

India's best-known investor never pretended to avoid losses. He told investors to decide in advance how much to risk and when to accept being wrong. That is a skill, and it can be learned.

The market does not know what you paid, and it will not wait for you to get your money back.

In January 2008, at the top of a long bull market, Reliance Power came to market with one of the largest public offers India had seen. It sought about ₹11,563 crore at up to ₹450 a share, and the issue was subscribed 73 times, with a record five million applicants, according to an [ICMAI case study](#). The grey market priced the shares well above the issue price. Few people doubted the listing would be a celebration.

On 11 February 2008, the shares opened 19% higher, at ₹538. Within minutes they were below the issue price. By the close they were at ₹372.50, down 17% from the issue price, [The Tribune](#) and the ICMAI study recorded. The market had delivered its verdict on the first day.

The company later issued bonus shares to non-promoter shareholders, which brought a retail investor's effective cost down to about ₹269 a share. It was not enough. By January 2013 the stock traded at about ₹93. On 26 March 2020 it touched an all-time low of ₹1, [Finology's Ticker](#) noted. A stock that five million people had queued to buy had become a penny stock.

At every stage along the way, there was a reason to hold. The bonus would help. The power projects would come on stream. The price was already low. Each argument was about getting back to cost, not about what the business was now worth. Investors who sold on the first day, or the first month, took a painful loss. Those who waited to break even took a far larger one.

Jhunjhunwala's three rules in one sentence

Rakesh Jhunjhunwala, India's most famous investor, packed his approach to risk into a few short lines, collected by [Outlook Business](#): "Respect the market. Have an open mind. Know what to stake. Know when to take a loss. Be responsible." He added a harder truth: "You cannot make profits in the stock market unless you have the ability to bear losses."

Read together, these are three separate disciplines.

Respect the market means treating a falling price as information, not an insult. The market may be wrong, but it is aggregating the views of millions of people, some of whom know things you do not. On Reliance Power's listing day, the market said clearly that the price paid was too high. Respecting that does not mean selling every time a price falls. It means asking honestly what the market might be seeing.

Know what to stake means sizing every position so that being wrong is survivable. An investor who had put a small slice of savings into the 2008 issue could absorb the loss and learn from it. One who

had borrowed, or put in money meant for a home, had no such freedom.

Know when to take a loss means deciding in advance what would make you sell, before emotion has a say. Jhunjhunwala's own career included painful periods; the dotcom crash of 2000 hurt him badly, according to accounts of his life such as [Governance Now's](#) review of his biography. What distinguished him was not a record free of losses, but the ability to absorb them and stay in the game.

Exit rules help, but they are not magic

Can a pre-set exit rule, such as selling after a fixed fall, protect investors? The evidence is mixed. In a 2014 study in the *Journal of Financial Markets*, [Kathryn Kaminski and Andrew Lo](#) of MIT found that "certain stop-loss policies can increase expected return while substantially reducing volatility", but only under some conditions and over longer horizons. Mechanical rules applied to short-term noise can simply lock in losses and miss rebounds.

For most long-term investors, the more useful exit rule is about the business, not the price. Write down why you bought, and what would prove you wrong: profits that do not arrive, debt that keeps growing, promises that keep slipping. When those conditions appear, act on them, whatever the share price is relative to what you paid.

If you do one thing: For every holding, write down two numbers before you need them: the most of your savings you are willing to put in it, and the business developments that would make you sell. Review them when results come out, not when the price moves. When a sell condition is met, act, and do not let the price you paid argue you out of it.

Jhunjhunwala's line about bearing losses is often read as a statement about courage. It is really about preparation. The investors who held Reliance Power from 2008 to 2020 were not short of courage; they were short of a plan that told them when hope had stopped being a strategy. Respect the market, size your bets so no single mistake can sink you, and decide in advance what being wrong looks like. Losses will still come. They will just stop being catastrophes.

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