

MIT tracked 298,556 households. The self-declared experts panicked more often

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Maxim: *Everyone has the brainpower to make money in stocks. Not everyone has the stomach.* — Peter Lynch

Investing knowledge is easy to acquire and easy to overrate. The quality that decides results is the one nobody can learn from a book: staying put when it hurts.

The hardest part of investing is not working out what to do. It is doing it while frightened.

A team of MIT researchers, including the finance professor Andrew Lo, set out to measure exactly when investors lose their nerve. Daniel Elkind, Kathryn Kaminski, Lo, Kien Wei Siah and Chi Heem Wong studied 653,455 brokerage accounts belonging to 298,556 households at one of America's largest brokerage firms, covering January 2003 to December 2015, a period that included the 2008 crash. Their paper, [When Do Investors Freak Out?](#), defined a panic sale strictly: a month in which a household's equity holdings fell by 90%, at least half of it because the household itself sold.

About 9% of households panic-sold at least once. At any moment, such sales were rare, but they ran at up to three times their normal rate during big market moves. In the short run, selling sometimes protected capital; one investor who sold early in the 2008 crisis and stayed out for 15 months avoided a further fall of about 17%. The long run was another matter. The median panic seller earned a return of zero or worse, investors who stayed out for more than about 34 months missed the rally that began in 2009, and 30.9% of panic sellers had still not returned to risky assets by the end of 2015.

Confidence was not protection

The most striking finding was who panicked. Households with men, investors over 45, married investors and those with more dependants freaked out more often. So did investors who described their own investment experience or knowledge as excellent.

Read that again. The people who believed they understood markets best were among the likeliest to bail out at the worst time. Knowledge, or at least confidence in it, did not translate into calm. The study does not explain why, and it covers American investors only, but the pattern is hard to ignore.

Peter Lynch put the same idea more simply in *Beating the Street* (1993). Among his golden rules, as [The Motley Fool Australia recorded](#): "Everyone has the brain power to make money in stocks. Not every one has the stomach." He followed it with a blunt instruction. If you are susceptible to selling everything in a panic, he wrote, you ought to avoid stocks and stock mutual funds altogether.

That is not a put-down. It is the most honest advice in the list. A portfolio that you will abandon in a crash is worse than a duller one you will keep.

The Indian test of 2020

Indian investors had their own exam in 2020. The Sensex fell to 25,639 in March as Covid lockdowns began. What followed was a rally few expected: in the financial year to March 2021, the Sensex rose

68% and the Nifty 50 71%, the best year for Indian markets in a decade, [Business Standard reported](#).

Yet over that same year, money flowing into SIPs fell. AMFI data showed SIP collections of ₹96,080 crore in 2020–21, about 4% less than the year before, [Business Standard noted](#). Much of that drop reflected lost jobs and uncertain incomes, which no amount of temperament can fix. But some of it was the familiar reflex: pause the SIP when the news is worst, which is precisely when each instalment buys the most.

Building a stronger stomach

Temperament is partly something you are born with, but it can be helped by design. The investors least likely to panic are the ones who never have to sell: their emergency money sits elsewhere, their near-term goals are in debt funds, and they own only as much equity as they could watch halve without changing course.

It also helps to look less. A monthly glance at a portfolio during a crash invites action; an annual review against a written plan invites patience. And it helps to decide in calm times what you will do in bad ones, because the decision made in advance is almost always better than the one made at 3 pm on a red day.

Automation is the last line of defence. A SIP that runs without a monthly decision removes one chance to flinch, provided the money behind it is genuinely spare. So does a rebalancing rule, written down, that tells you to buy equity when it has fallen below its target share, not to sell it. Neither makes you braver. Both make bravery less necessary.

If you do one thing: Imagine your equity holdings falling by half in a few weeks, and ask honestly whether you would sell. If the answer is yes, reduce your equity share now to the level at which the answer becomes no. The right allocation is the one you can hold.

The MIT households were not short of information; many of them believed they had plenty. What they lacked, at the moment that mattered, was the ability to sit still. Lynch's rule is a reminder that the brainpower part of investing is the easy part. The stomach is what you have to plan for.

Sources

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