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Don't Make the Same Investment Mistakes Isaac Newton Did!

Did you know there is an interesting story on investment behaviour with renowned scientist Isaac Newton at its centre?

The year was 1720. South Sea Company was among the hottest stocks in England and Isaac Newton had made over 100% returns on his investment in the company. As their stock prices continued to appreciate, Newton, with an eye on more, invested an even larger amount in the same company. Unfortunately, the stocks collapsed a few months later and Newton lost his money, including the previous profits.

Herd Mentality and Speculations

Despite being one of the greatest minds of his time Newton acted out of herd mentality – behaviour not uncommon among stock market investors. Throughout history such fads have held investors in their grip. Be it the Tulipmania of the early 17th century, the dot-com boom of the late 1990s, or even the recent Crypto market bust.

Investment fads attract investors solely based on the possibility of exorbitant returns on a particular asset class in a relatively short period of time. Average retail investors enter at a time when the prices have already run high, and make decisions without knowing the fundamentals of the company, only to lose their money in a matter of days. This is counter to the rationale of investing for long-term wealth creation.

Putting all Your Eggs in One Basket

Diversify your portfolio. Newton had a significant portion of his wealth tied up in the South Sea Company, and when the company's stock price plummeted, he suffered significant losses. Diversifying your portfolio across different asset classes and industries can mitigate risk and protect your investments.

Emotions over Rationale

Don't let emotions guide your investment decisions. Newton was a victim of the "fear of missing out". When the South Sea Company's stock price began to soar, he bought in because he didn't want to miss out on potential profits. He then held onto his shares even when the stock price began to decline, hoping it would rebound. Emotions can cloud your judgment and lead to poor investment decisions. It's important to have a solid investment strategy and stick to it, regardless of market fluctuations.

Newton may have been unable to resist the temptation, but you can learn from his mistakes. So, keep calm and invest wisely; avoid market fads, instil discipline, align your investments with your goals, and diversify your investments across asset classes.

KNOWLEDGE CENTRE INSIGHTS. ANALYSIS. EXPERT VIEWS.