



Sip: The most beneficial mode for investment in equity mutual funds for the common investors

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Abstract

Equity as an asset class is highly rewarding but at the same time it is inherently volatile in nature. An effective alternative available to investors to reap the benefit of equity and reduce the risk with diversification is equity mutual funds. Moreover there is fund manager who is a market expert whose knowledge helps to reap the benefits of equity. It offers various convenient options to investors to suit their requirements. However, one cannot expect from a common investor that they have a huge investible surplus to invest in equity or equity funds. The solution to the above problem lies in the most beneficial mode of investment and reap the handsome returns from equity is Systematic Investment Plan, most commonly known as SIP. The research discusses the concept of Systematic Investment Plan, its benefits to common investors along with its various alternatives it offers to select, so as to realize the maximum benefit in long term.

Keywords: systematic investment plan, equity diversified mutual funds, fund manager

Introduction

Equity is one of the most rewarding investment avenue. However the risk attached to equity investment is very high. The factors that affect the equity are so extensive that it becomes beyond the reach of common investors to take investment decisions. Another major hurdle is investible surplus which equity demands to reduce the risk through diversification. Both these discourage the investors to invest into equity. Due to these, they also miss the opportunity of earning high returns that equity fund offers. Mutual funds are good alternative which collect corpus from various investors and offers expert's knowledge for investment in variety of assets class reducing the risk. Thus mutual funds offer dual benefits, one of expert's skills and another is diversification. There are two alternative modes of investment in mutual funds – Lump sum Investment and Systematic Investment Plan which is commonly known as SIP. Lump sum route is a single payment mode where generally a handsome amount of investment is done at a time in the fund of one's own choice, whereas under the SIP mode of investing, a fixed amount, even as low as five hundred rupees, is invested at fixed intervals of time as per investor's convenience in the scheme of his choice. For the common investor who depends on regular savings for his or her investments, it makes sense to invest through the systematic investment plan route. AMFI data shows that the MF industry had added, on an average, 9.34 lakhs SIP accounts each month during the FY 2020-21, with an average SIP size of about ₹2,356 per SIP account^[1]. This speaks of importance of mutual funds for common investors. It's not over exaggeration to say that investing

in equity funds through SIP mode is the most beneficial mode of investment for a common investor providing opportunities of earning high returns in longer term without the need of huge investible surplus.

Literature Review

Patel, P. & Shinde (2020)^[2] compared various ways to invest in mutual funds like Systematic Investment plan where an investor invest monthly, Lump-sum investment where a huge amount of investments was involved at any time and Value averaging where a value average was considered and respective amount was invested. The major aim of this paper was to understand which of various available investment options in mutual funds yielded maximum results over 3 years period. SIP turned out to be the most promising one as 4 out of 5 times it had yielded more results than the alternative options with around 5-6 % more returns with respect to the other Investment options. Balamurugan, M. S., & Soundararajan, K. (2020)^[3] concentrated on number of factors that highlighted investors' perception about investment plan of mutual funds. It was found that SIP of mutual funds was not that much known to investors. Most of the investor used to invest in mutual fund for not more than three years and they used to quit from the fund which were not giving desired results. The attitude is important factor that had strong relationship with investor behavior towards SIP in mutual fund.

Joseph, G., Telma M. & Romeo, A. (Feb 2015)^[4] had observed that Systematic Investment Plan (SIP) reduced the risk when the

¹ <https://www.1stopinvestment.com/mutual-funds/latest-sip-data/>

² Patel, P., & Shinde, S. A study to find the best alternative for maximum returns on Mutual Funds using Systematic Investment Plan, Lump-sum & Value Averaging Investment method. International Journal of Scientific & Engineering Research, 11(10), 1065-1079. https://www.researchgate.net/profile/Poojan_Patel13/publication/345993629_A_study_to_find_the_best_alternative_for_maximum_returns_on_Mutual_Funds_using_Systematic_Investment_Plan_Lump-sum_Value_Averaging_Investment_method/links/5fb4e30245851518fdb0979b/

A-study-to-find-the-best-alternative-for-maximum-returns-on-Mutual-Funds-using-Systematic-Investment-Plan-Lump-sum-Value-Averaging-Investment-method.pdf

³ Balamurugan, S., & Soundararajan, K. (2020). Study on Investor Behaviour in Systematic Investment Plan of Mutual Fund. Mukta Shabd Journal, 9(5), 744-750. <http://shabdbooks.com/gallery/80-may-2020.pdf>

⁴ Joseph, G., Telma, M., and Romeo, A. (2015). "A study of sip & lip of selected large cap stocks listed in nse". International Journal of Management Research & Review, Vol.5, No.2, Art.No8, pp117-136

market was volatile and SIP worked more advantageously in the bearish market whereas, Lump sum gave high returns in a bullish market. From this study, it can be concluded that in order to get better results from SIP, investment for a minimum period of 5 years was necessary.

Prasad, L., & Sharma, S. K. (2015) ^[5] undertook a study to find out the motivating factor to invest in systematic investment plan and the problem in this scheme. Data were collected from Secondary sources and analysed using various tools like standard deviation and Sharpe ratio. Results of the study found that for higher return with low risk the investors were motivated to invest in systematic investment plan on the other hand knowledge and operational platform is one of the main barrier that investor were facing of scheme.

Objective of the Study

- To study the concept and advantages of Systematic Investment Plan
- Discuss various types of Systematic Investment Plan
- To discuss the factors that need to be considered before investment in Systematic Investment Plan

Importance of the Study

The study provides insight into the Systematic Investment Plan as a mode of long term investment in equity along with the advantages and variety it offers to investors. It also highlights the factors that investors have to keep in mind while investing in Systematic Investment Plan to turn it into profitable investment.

Methodology

The study is mainly based on secondary resources of information such as journals (international/national), newspapers, research articles and website related to investment, etc.

Definition and Meaning of Systematic Investment Plan

Systematic Investment Plan can be defined as an investment strategy wherein an investor needs to invest the same amount of money in a particular mutual fund at every stipulated time period ^[6]. The principle of systematic investing is simple. It works on regular and periodic purchases of the mutual fund's units (of the same scheme) as per investor's choice resulting into purchasing units at various prices and in varying amounts. The investors have luxury to determine the amount they want to invest at regular intervals. The equity as an asset class is inherently volatile in nature but at the same time it is highly rewarding. The beauty of Systematic Investment Plan is that investors need not to monitor the market. Investment is made regularly during all the conditions of the market. Investment can be started with a marginal amount which means there is no need for investor to have a huge amount of money. The cost of investment can be averaged as more units are purchased when market is low, compensating for purchases made during a high market. This can help tide over market fluctuations and even out the cost. Returns earned on investment are invested back which helps to avail advantage of power of compounding. Investment is required to be made regularly as per decided tenure which inculcates the habit of saving and financial

discipline in the investors. It is very convenient as amount is automatically debited from investors' account. The procedure is very simple and hassle free. It provides option to investors to pause during periods of emergency as well as to alter the interval or even cancel in case of need offering utmost flexibility to the investors.

There is no cap to maximum amount which can be invested through Systematic Investment Plan giving chance to investor to determine the most appropriate amount to be invested as per his investment objectives.

Thus, it offers excellent opportunity to investors to create wealth by investing in equity mutual fund even with limited investible surplus. Apart from this, there are few other types of Systematic Investment Plan options which investors may consider to increase their chances of creating wealth which are as follows ^[7]:

▪ Top up SIP

In this type of SIP investment, investor can gradually increase monthly SIP amount which is known as Top up SIP. For the investor whose income increases every year, this is worth considering option.

▪ Perpetual SIP

SIP which can be continued as long as investor wants is perpetual SIP. There is no hustle and bustle of renewals making it a very smooth option. A perpetual SIP generally targets the long term financial goal of a mutual fund investor.

▪ Trigger SIP

A trigger SIP is generally considered by experienced investors who have a good understanding about mutual fund investment and market volatility. Here an investor can select an index level or any particular event or NAV level when his SIP will start.

▪ Flexible SIP

Investors with irregular cash flows can take advantage of this SIP as it gives them the liberty to increase or decrease the investment amount depending on their financial situation.

However one thing which the investors have to keep in mind is that investing is a long journey and one needs to be patient if they want to create wealth.

The underlying principle of wealth creation is that, the longer you remain invested, higher are your returns. Earlier the SIP is started, more beneficial it turns out to be. This can be easily understood with the following table:

Table 1

SIP Started at an age of	Investment till the age	Amount invested for period(years)	Monthly SIP	Total Investment	Return at 12% CAGR
25	60	35	Rs. 5000	21,00,000	3,24,76,345
30	60	30	Rs. 5000	18,00,000	1,76,49,569
35	60	25	Rs. 5000	15,00,000	94,88,175

Source: <http://suratcommercial.com/about-sip/>

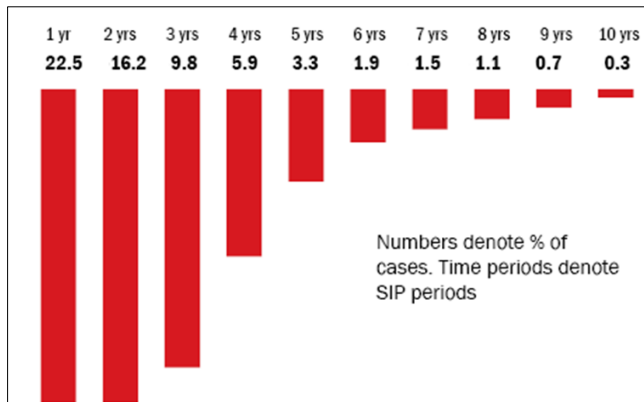
A popular stock-market adage is 'Time in the market is more important than timing the market'.

⁵ Prasad, L., & Sharma, S. K. (2015). A Study on Customer's Preference While Investing In Systematic Investment Plan. Journal of Commerce and Management Thought, 6(3), 477-486.

⁶ <https://economictimes.indiatimes.com/definition/systematic-investment-plan>

⁷ <https://www.policybazaar.com/sip/types-of-sip-plans/>

Time (investment tenure) is one of the most important condition for wealth creation. Longer the time, higher the returns and lower the risk. This can be clarified from the following figure.



Source: <https://www.valueresearchonline.com/stories/33901/loss-proofing-your-sip/>

Fig 1: Negative SIP Returns

It can be clearly inferred from the above figure that the probability of loss reduces as the tenure of investment increases. Other important aspects which are as important as tenure are financial goal of investor and the risk appetite of the investor which must be considered while taking decision regarding Systematic Investment Plan. The investment goal of the scheme must be aligned with that of investors' goal. However it is advisable to undertake some preliminary research about the scheme and its past performance along with its expense ratio of the fund before investing.

Conclusions

SIPs have done to the mutual fund industry what the sachets did to the FMCG industry a few years back. The biggest positive has been a surge in retail participation through the systematic investment plan (SIP) route, mainly in equity-oriented funds. SIPs are something that beautifies with time hence time is the essence even in SIP mode of investment in equity mutual funds.

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