

Systematic Investment Plan (SIP) – An Investment Mantra for Growth of Your Wealth

Systematic Investment Plan (SIP)

- A specific amount is invested for a continuous period at regular intervals under SIP.
- SIP is similar to a regular saving scheme like a recurring deposit. It is a method of investing a fixed sum regularly in a mutual fund.
- SIP allows the investor to buy units on a given date every month. The investor decides the amount and also the mutual fund scheme.
- While the investor's investment remains the same, more number of units can be bought in a declining market and less number of units in a rising market.
- The investor automatically participates in the market swings once the option for SIP is made.

Key Features

- SIP is a disciplined way of investing one's money in order to take advantage of the volatility in the market, and thus drawing maximum benefit out of investments over a longer period of time.
- In SIP, an investor invests a pre-specified amount in a scheme at pre-specified intervals at the prevailing NAV.
- By investing through this route the investor actually ends up with more number of units and hence can get more returns whenever he disposes them off.
- This happens due to the reduction in average cost of each unit of the scheme that is purchased.
- SIP helps in averaging out the cost of purchase and benefit from power of compounding, thereby, creating wealth over the long run.
- It greatly combats the uncertainties of the market and reduces the impact of a highly volatile market condition. Thereby, allowing the investor test out the waters and build a portfolio one step at a time.
- Thus, investors should start investing through SIP, for achieving their long term financial goals.

Benefits of Investing through SIP

- There is no need to time the markets as investment is made at predetermined intervals. This spares investor from investing a lump sum amount at peak prices.
- Investor benefits from an investment principle called '**Rupee Cost Averaging**'. Since fixed sum is invested at regular intervals, investors pick up more units when the prices are low and less units when the prices are high. This brings down the average cost of units.
- A Systematic Investment Plan renders to investor the **Power of Compounding**, especially if SIP starts early in life.
- SIPs inculcate the savings habit in investors. On a regular basis investor puts aside affordable sums of money and without realizing it, over the long run huge wealth is created.
- It is a hassle-free mode of investment since investor can issue standing instructions for the regular transfers of money into SIPs.
- SIPs serve as a great financial tool to counter inflation.

Comparison between Lump sum & SIP

Month	Lump sum	Units Purchased	SIP	Units Purchased	Unit Price
1	10000	1000	1000	100	10
2	-		1000	105.3	9.5
3	-		1000	114.3	8.8
4	-		1000	115.6	8.7
5	-		1000	118.3	8.5
6	-		1000	125	8
7	-		1000	117.6	8.5
8	-		1000	107.5	9.3
9	-		1000	95.2	10.5
10	-		1000	90.9	11
Total Investment	10000	1000	10000	1089.8	
Total Value	Rs. 11000		Rs. 11988		

The table shows that at the end of the investment period of 10 months Lump sum investment has 1000 units with market value of Rs. 11000, whereas, investments through SIP has 1090 units which has a market value of Rs. 11988.

Recommended Equity Funds for SIP

Schemes	Funds Details		Performance Analysis (% Returns)				Long Term Wealth Creation SIP Analysis of Rs. 5000 Per Month		
	NAV (19-Aug-10)	Minimum SIP Investment	1 Year	2 Years	3 Years	Since Inception	1 year Investment (Rs60,000)	2 years Investment (Rs1,20,000)	3 years Investment (Rs1,80,000)
Equity Large Cap Funds									
Fidelity Equity Fund - Growth	35.35	500	45.48	25.51	14.97	27.13	69,776	185,240	268,665
HDFC Capital Builder Fund - Growth	109.59	500	48.79	25.47	14.95	15.56	69,471	190,673	272,905
HDFC Equity Fund	274.82	500	52.91	32.39	20.05	23.60	70,470	199,920	293,888
ICICI Prudential Dynamic Plan - Growth	102.99	1000	39.15	20.37	14.86	34.82	67,066	176,806	257,958
Reliance RSF - Equity - Growth	31.84	500	42.05	25.92	24.10	24.90	68,244	190,656	277,062
Equity Flexi Cap Funds									
DSP BlackRock Equity Fund	16.79	1000	43.59	25.32	19.21	17.56	68,893	184,454	269,778
HDFC Core & Satellite Fund	41.17	500	57.02	30.59	15.79	26.99	70,995	200,950	287,865
Templeton India Growth Fund - Growth	121.16	500	40.06	23.05	19.95	20.57	67,443	186,148	269,462
ICICI Discovery	48.50	1000	52.28	37.48	22.16	30.01	69,950	216,977	319,370
Equity Mid Cap Funds									
DSP Small & Mid Cap	18.56	1000	67.10	35.12	19.47	17.85	73,877	220,133	314,492
HDFC Mid-Cap Opportunities Fund	15.44	500	61.50	30.91	16.26	14.76	72,463	204,610	295,530
Equity Small Cap Funds									
DSP Micro Cap	17.18	500	91.23	35.26	N.A	18.53	79,033	246,670	340,540
ELSS									
DSP BlackRock Tax Saver Fund - Growth	17.61	1000	42.93	21.81	14.90	17.09	68,714	184,800	262,560
Fidelity Tax Advantage Fund - Growth	21.95	500	47.64	26.75	16.64	19.19	70,445	188,369	273,970
Franklin India Taxshield - Growth	201.81	500	37.57	21.76	14.63	30.26	67,302	175,290	253,592
HDFC Tax saver - Growth	233.47	500	49.66	28.95	15.22	32.75	69,731	193,224	280,165
INDEX									
HDFC Index Fund - Sensex Plus Plan	223.47	500	31.85	19.47	13.32	27.05	65,713	169,394	245,388
ICICI Prudential Index Fund	51.40	1000	26.30	13.48	11.63	21.29	64,924	163,317	232,477

Source: MFI Explorer; Note:1) Growth Option taken for Analysis 2>Returns (%) are on CAGR basis (Report as on 20th August, 2010)

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