

SIPs: Smart way to reach your goals

Investing in a fluctuating market plays heavy on the mind of the investor. To smoothen such a task, investing in a systematic investment plan helps average out the benefits in a rising and falling market. Timing the market is a tricky issue and SIPs help overcome this, and helps discipline your investing pattern.

Systematic investment plan (SIP) is a disciplined way of investing your funds. It works on the principle of regular investing. SIPs allow you to invest a prefixed amount for a prefixed interval in the mutual fund scheme of your choice. On the defined date the amount indicated by you will be automatically debited from your bank account and will be invested in the scheme selected by you. Hence, after you have set an SIP you are not required to track the investment dates.

SIP is an option available with almost every open-ended equity mutual fund scheme and selective hybrid schemes. The minimum time-period for SIP is defined by the asset management company (AMC) and can differ from scheme to scheme. The period can be chosen considering the goal of your investment. Let's say you require Rs 8 lakhs to buy your dream car for which you can comfortably set aside Rs 9,000 per month. Expecting a 15 percent return, you can start a monthly SIP of Rs 9,000 for a period of five years to sufficiently accumulate the required sum. Depending on the availability of cash flow, you can select the date (1st, 10th, 15th or 25th) on which you want your SIP to be triggered.

Apart from the apparent benefit of ease in investing your savings, SIP has many other advantages. SIP allows you to invest a pre-specified amount in a scheme at periodic intervals (For e.g. 1 month, 3 months, etc.). So whenever the market moves down and the net asset value (NAV) of the scheme is lower, you end up buying more units of the scheme. If the market moves up, NAV of the scheme increases and you will get less units of the scheme. Hence the average cost of purchase works out lesser.

Let's take an example: say, every month you commit to invest Rs 10,000 in a diversified mutual fund scheme.

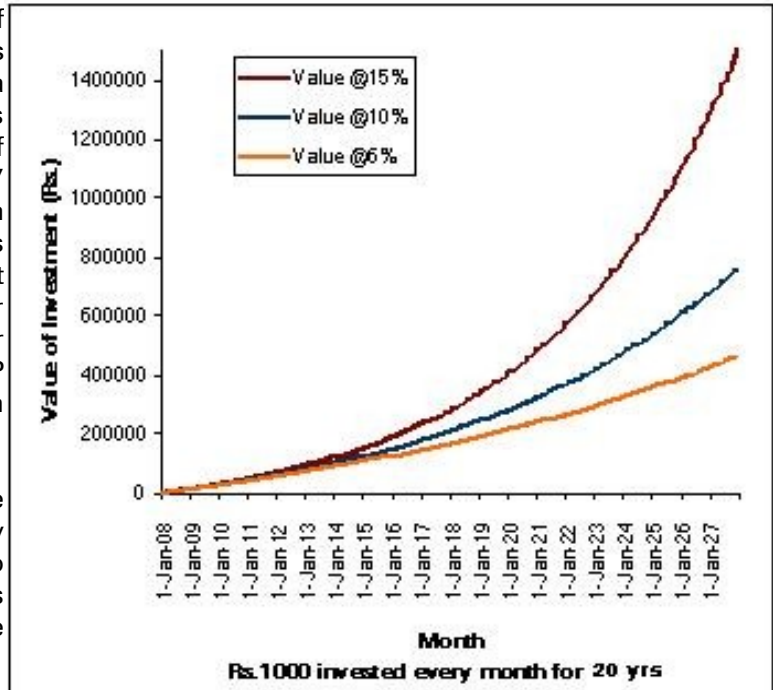
Date	Sensex Levels	NAV (Rs)	Amount	Units
2-Dec-07	20,044	104	10,000	96
2-Jan-08	20,926	113	10,000	89
2-Feb-08	19,080	92	10,000	109
2-Mar-08	17,053	84	10,000	120
2-Apr-08	16,105	78	10,000	129
2-May-08	17,996	86	10,000	116
2-Jun-08	16,425	80	10,000	126
2-Jul-08	13,972	71	10,000	140
2-Aug-08	14,906	74	10,000	134
2-Sep-08	15,388	75	10,000	133
Total			100,000	1,192
Cost per unit				84

As seen in the table, in July when the market was at 13,972 (low) levels, 140 units were bought for Rs. 10,000. This is far more than 89 units bought when the market was at 20,926 (high) levels. Thus, through SIP more units were bought at lower levels and less at market peaks.

So for 1,192 units bought through the SIP route, your average per unit cost turns out to be Rs 84. If you had bought all 1,192 units in January, cost per unit would have increased to Rs 113. This way you avoid investing all your savings at the market peaks. It frees you from the worry of timing the market, a thing which even professionals do not excel in.

SIP can be started with as small an amount of Rs 500. By investing relatively small amounts through SIP one can accumulate wealth over a period of time without straining the savings substantially. As seen in the graph 'Growth of Rs 1,000 invested every month for 20 years' small investments of Rs 1,000 every month accumulates to Rs 15 lakh at end of 20 years assuming 15 percent returns. The amount thus accumulated can be utilised to pay for your child's higher education or your children's marriage or buying a house. SIP imparts regular savings which results in accumulated wealth.

The cost of investing is also reduced if done through SIP as most AMC's charge less "entry load" for SIP investments when compared to normal purchases in the scheme. And as explained earlier, you can also enjoy the benefit of rupee cost averaging.



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