Tribune ND 29-Oct-12 P-14

In the volatile Indian market, investments go through topsy-curve. For long-term wealth creation, a disciplined approach is important. Systematic Investment Plans offer a simpler way to accumulate wealth

SIP: SMARTEST WEALTH CREATION TOOL

VISHWAJEET PARASHAR

IN a high inflationary environment where even the day-to-day expenses are going sky high, and the future is almost unpredictable, almost everyone tries to save some amount to ensure some protection for the future. However, the important question here is - are your savings helping you create wealth for yourself? Here, one of the best ways to invest your money for creation of wealth over the long-term is investment in a Systematic Investment Plan (SIP). The process of investing in capital markets, which may be otherwise very tough and time consuming, has become more simpler, systematic and less risky, by the way of investing in SIPs.

What does SIP mean?

SIP means investing systematically on a monthly basis; it is a method of investing primarily in mutual funds, wherein a fixed amount is invested for a continuous period at regular intervals under the same scheme.

As we all know that tasks done in a disciplined and systematic manner deliver the best results in the long run, the same principle applies to the process of long-term wealth creation. SIP is a perfect tool for people who have specific financial requirements. By investing an amount of your choice every month, you can plan for and meet financial goals, like your child's education, marriage, ensuring a comfortable post-retirement life, etc. The amount could be as low as Rs 100 but there is no upper limit on investment.

Power of Compounding

The other advantage of investing through SIPs is that it leads to power of compounding. Let us explain this to you with the help of an example - Mohan started investing ₹4,000 per month at the age of 30, and his friend Sohan started slightly late, at the age of 40 by investing ₹6,000 per month. When both of them retired at the age of 60, Mohan was a richer man by almost ₹45,00,000! This is explained with the help of the table given below

	MOHAN	SOHAN
Age at which he began investing	30 yrs	40 yrs
Monthly investment amount	₹4,000	₹6,000
Total amount invested	₹14,40,000	₹14,40,000
Corpus at the age of 60	₹91,17,301	₹45,94,181

It is especially beneficial for those people, who want to invest in the equity markets, but cannot make lump sum investments.

Rupee Cost Averaging

Talking of the benefits, SIPs help investors in taking advantage of Rupee Cost Averaging i.e. it helps the investor to tide over the ups and downs of the market. In the current situation, where the Indian market is highly volatile, the investors who have invested through SIP are least affected. Yes, today's volatility in the equity markets can be beaten with SIPs. Systematic Investment Plan is a time tested strategy; it has been proven a number of times that SIP is the cure of volatility in the equity market.

Induces Discipline Investing

Also, SIPs ensure that investors continue to invest in a disciplined manner, as one contributes a certain amount each month from his/ her surplus for a SIP payment. Moreover, the amount to be invested is usually not too large, which makes it easier for the investor to pull out a few hundred rupee notes from his monthly expenses.

Checklist

However, there is a checklist of wealth creation though SIPs, which one must take care of. It is

a) Continue to save and invest as long as you are earning
b) Do not stop or break the SIP irrespective of market conditions
c) Always go for perpetual SIPs, as you always have the flexibility to add more or exit
d) Shift to safer options only one year before the goal
e) Allocate funds into a combination (largecap, midcap, value funds, etc)
f) Reduce expenses, not savings
g) With every increase in earning, increase your savings amount by at least same proportion
h) Attach every SIP with a goal and vice versa.

As there are a wide variety of schemes available in the market, it is best to choose your SIP scheme designed to suit your financial requirements, in consultation of your financial advisor. While doing so, you must also evaluate the past performance of the fund. Also, post investing, it is important to keep track of how your fund is faring, and this can be done every 6 months perhaps, by re-aligning the portfolio, if required.

To conclude, India's growth story seems to be positive in the long-run with a potential to attract huge investments and deliver returns as per the investors' expectations. In such a situation, SIP is the best tool to save small amounts each month. The question is not about 'when' to invest, it is about 'how' and 'how much' to invest. So the focus should be on following the right asset allocation and investing through a proper investment process. We recommend that retail investors should not try to time the market and refrain from making lumpsum investment in the market at any time. Instead, they should follow a systematic approach to investment.

The author is the senior vice president (marketing) of Bajaj Capital. The views expressed are his own