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Invest lumpsum if you can time the market

Otherwise, go for systematic investment plans and invest diligently

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Does investing a lumpsum amount in stock market accrue more profits than through an SIP (systematic investment plan)?

SIP works on the principle of regular investments. It is like your recurring deposit, where you put in a small amount every month. Through SIPs, you can invest as small an amount as ₹500. In SIP, you stagger your investments through different market levels, systematically. That is, you invest a fixed sum either monthly or quarterly in a mutual fund (MF) scheme. For example, you decide to invest ₹5,000 every month or every quarter in an MF. You fix a date on which the amount gets invested, monthly or quarterly.

A lumpsum investment means you invest large amounts at a time, as and when you have a surplus. It is advised to only those who can time the market well. "Lumpsum investments can go either way: You could make huge gains or suffer tremendous losses. This the reason why such investments are not advised for retail investors," explains Ashish Kehair, executive vice-president and head, private wealth and international business, ICICI Securities.

For instance, from January 2003 up until November of this year, the Sensex has gone up more than four times (408.92 per cent, to be precise). If you had invested a lumpsum amount in either one of the top five mutual fund schemes in 2003, when the Sensex was at 3, 800 levels, you would have made anywhere between 26 to 32 per cent on an annualised basis as on end-November 2012, when the Sensex touched 19, 339. The same amount, if invested through SIP, would have given you a return of 19-23 per cent.

In case you have a big amount of surplus cash, you can even consider investing in SIP & equities. SIP will help you through volatile times and lumpsum investments during the times that the markets are rising

If you had invested in one shot in the biggest equity mutual fund scheme, the HDFC Top 200, you would have got annualised returns of 29.23 per cent during this period. On the other hand, through the SIP route, you would have got only 21.49 per cent for the same investment.

In the third largest scheme, the Franklin India Bluechip fund, your lumpsum investments would have given you 26.01 per cent, while SIPs would fetch you 19.08 per cent.

If you think 10 years is too long a period, consider investments from the end of 2008. At the end of December 2008, the Sensex was at 9,647. From that level, it grew more than 100 per cent as of November 2012.

Had you put in a lumpsum amount in the HDFC Top 200 fund, then you would be looking at annualised returns of 24.78 per cent. And if you had gone the SIP way, you would have made only 13.19 per cent. The same would be the case with the Franklin India Bluechip fund: lumpsum would have given you 23.95 per cent, while SIP would fetch only 13.56 per cent.

SIP works best when the stock markets are volatile. People who invest through SIPs capture the lows as well as the highs of the market. In a SIP, your average cost of investing comes down since you will go through all phases of the market.

Lumpsum investment made investors more money during the time period that we have taken. However, for the reasons cited above, it is safer and less risky for retail investors to go the SIP way.

In a rising market, investment in lumpsum will give you a better return, unlike one via SIP. The reasoning: When you buy through SIP in a rising market, you purchase the units at a higher price. And when investing through SIP, make sure that you are in it for the long haul; even one year investments is not good enough.

Lumpsum investments bought at low levels and sold at higher levels give best returns. However, for a retail investor, timing the market is neither advisable nor easy.

Suresh Sadagopan, a certified financial planner, says not only is timing the market a problem for retail investors, a majority of them will not have that kind of money. "One can invest in a staggered manner even with ₹500 on a monthly basis. SIP investments will capture all the market movements and the question of timing the market does not arise," adds Sadagopan.

So, in case you have a big amount of surplus cash, you can even consider having a combination of both. SIP will help you through volatile times and lumpsum investments during the times that the markets are rising.