SIP - YOUR BEST FRIEND IN THE WEALTH CREATION JOURNEY

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Systematic Investment Plans (SIPs) have over the years emerged as an intuitive way to invest in mutual funds. It not only lets you make regular investments in a specified scheme at periodic intervals but also help you steer through the bullish and bearish markets. Here is how you can make your SIP efficient and relevant to your wealth creation journey.

Aligning Financial Goals with Investments

It is always advised to align your financial plans with your financial goals, and SIP is one of the methods to effortlessly make such an alignment. Goal-based SIPs tend to discourage you from redeeming investments unless the goal has been achieved. For example: You will think thrice before using your retirement corpus to fund your new car. Further, since financial goals define the end use of the savings accumulated over a period of time, it is easier to track the progress once you align your SIP with a specific goal(s). For example, if you wish to save towards the down payment of Rs. 50,000 towards your new car planned after a year, you can start a SIP of Rs. 4,000 each month in an open-ended debt scheme. If your savings generate an assumed 8.5% annual return, you would have accumulated almost the same amount by the end of the year.

Averaging the cost of Investment

Short term market volatility should neither impact your long term financial goals, nor your investment plans. Since investments are made on a periodical basis, your cost of investments gets averaged over a period of time. When the markets are falling, you get higher units allotted for the same investment. Similarly, in a rising markets, you get lower units for your SIP but will eventually benefit from the increase in the overall valuation of your portfolio. As such, SIP helps you achieve a reasonable average cost of units by continuing your investment through market ups and downs.

Don't panic if returns are taking time to turn green

We, as the investors, usually get more concerned about near-term events like elections or corporate earnings. However, equities have shown the tendency to smoothen the impact of short term volatility over the long run. For example, S&P BSE Sensex generated 12.5% returns between November 2018 and April 2019. However, the immediately preceding six-month period from September 2018 till February 2019 had generated -7.8% returns for the investors. When you increase the investment horizon to three years, the investors have enjoyed 15% annualized returns from April 2016 to April 2019.

In the long run, the stock prices are driven more by the fundamentals, as compared to daily news and events. That is why it is vital to balance the SIP scale by staying invested when markets are declining.

Start early to reap benefits

With the power of compounding, the investment amount for a specified financial goal decreases with the increase in the investment duration. Therefore, it is always advised to start investing at an early age to reap the benefits of compounding. For example, with a target corpus of Rs. 20 lakh and investments generating 12% annualized returns, you will need to invest Rs. 24,500 for the next five years to achieve your goal. However, if the investment period is increased to 10 years, you need to invest just around Rs 8,800 each month to reach the same amount.

By investing into capital market through mutual funds, it becomes easier for you to build a healthy portfolio, given the expertise and research capabilities of professional fund managers. More importantly, by investing through mutual fund, you tend to be regular and patient with your investments through the market noise. And for all this SIPs are an excellent way to achieve this financial discipline in your lives. Start your SIP, sit patiently through rough periods, give your SIP time to mature, and see your wealth grow!