To generate wealth, don't stop Systematic Investment Plans ("SIP")

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The old adage 'What you sow is what you reap' is true for investing too. How your investments turn out is a factor of how you invest and your investment behaviour. Mutual fund investing has transformed over the past two decades from sporadic investments by most investors into one where regular investing through SIPs, especially in equity mutual funds has become the new norm. The simplicity, convenience and regular automated investment in mutual funds have found several takers.

There are other benefits of investing in mutual funds through SIPs such as goal-based investing, compounding and rupee cost averaging. These has been popularity of SIPs such that several investors think of SIP as a mutual fund scheme and not as a route to invest in mutual fund schemes. SIPs are ideal for long-term investments to gain from the downs and ups of stock market movements. Yet, every once in a while, when market fluctuates, even the most seasoned SIP investor panic; some stop their SIPs and many exit their investments.

Stopping SIP is unwise

A quick recap on SIPs – SIP is a simple process of investing in mutual funds. You can view SIP as a financial planning tool to create wealth and achieve your long-term financial goals by investing a fixed amount in an equity scheme(s) at regular intervals. With the help of SIP, you need not be concerned about timing the market correctly. In this manner, SIPs inculcate discipline in your investments and makes you invest regularly. Another valuable aspect of SIP is their structure that helps you overcome the temptation of market timing.

Stopping SIPs is not the most ideal decision just because the stock markets are fluctuating. Stock markets are known to fluctuate, and SIP is a way to ride volatility.

To avoid such knee-jerk actions, it is best to invest through SIPs with a long-term financial goal, which instils the discipline to stay invested through market cycles till the financial goal is achieved. Moreover, by discontinuing SIPs before the time period for which it is planned, may result in the financial goal not being achieved.

To illustrate, let us look at the following examples of monthly SIP investments of Rs 1,000 in the S&P BSE Sensex with month end index data.

Case 1: The long-term disciplined investor

We tracked the investments of investors who stayed invested for the long run with different time periods of 10 or 20 years. To understand how investments fare over different time frames, we took three different 10-year periods of 2000-2009, 2005-2014 and 2010-2019. In each case, Rs 1,000 SIP was initiated in the S&P BSE Sensex index at the end of each month to track the journey of these investments.

In case of Investor D2, the case of a highly convinced investor in the power of SIP, we increased the SIP investment by Rs 100 (10% of the initial SIP investment), each passing year. So, if Rs 1,000 was invested each month in 2010, it was Rs 1,100 in 2011 and Rs 1,700 in 2017 and so on. At the end of the decade, his investments of Rs 1.74 lakh were worth Rs 2.86 lakh, at a marginally better XIRR compared to an investor who would have invested the same sum over the entire decade.

Patience Pays

	INVESTOR A	INVESTOR B	INVESTOR C	INVESTOR D1	INVESTOR D2[1]
Investment period	**Jan 2000 to Dec 2019**	**Jan 2000 to Dec 2009**	**Jan 2005 to Dec 2014**	**Jan 2010 to Dec 2019**	**Jan 2010 to Dec 2019**
SIP	₹2,40,000	₹1,20,000	₹1,20,000	₹1,20,000	₹1,74,000
Value of SIP	₹10,54,917	₹3,58,558	₹2,30,158	₹2,07,963	₹2,86,015
XIRR	13.20%	21.03%	12.68%	10.75%	10.88%

[1]Each passing year, D2 SIP investments increased by Rs. 100

Note: XIRR method is used to calculate SIP returns. The above investment simulation is for illustrative purpose only and should not be construed as a promise on minimum returns, investment advice and safeguard of capital. Invesco Asset Management (India) Private Limited/Invesco Mutual Fund is not guaranteeing or promising or forecasting any returns.

Case 2: The worried investor

This is the case of an investor who waited out a lot before getting into SIP investing in the 2000-2009 decade. The first four years of this block of ten years witnessed a rather insipid and almost a horizontally flat journey of the Sensex, to enthuse new investors. In this case, the investor waited the first five years to find conviction with investing and started investing from Jan 2005. Expectedly, the first sign of market fall, the investor developed doubts. At the onset of the global financial crisis of 2008, this investor stayed put a few months and by July 2008 stopped his SIPs. His monthly SIP investments of Rs 1,000 in the S&P BSE Sensex of Rs 43,000 were worth Rs 55,720 at an XIRR of 15.25 per cent and he exited completely.

Instead of exiting in July 2008, if the investor had stayed put for another 17 months; he would have benefited with his investment of Rs 60,000 going up to Rs 91,786. If the investor in this case had stopped investing further SIPs after July 2008, his investment of Rs 43,000 would have been worth Rs 67,787 in December 2009. Although, one should stay invested through SIPs, however, even if one had stopped future SIPs, the worth of investment has the probability of gaining over time.

Opportunity loss

	INVESTOR B1	INVESTOR B2	INVESTOR C1	INVESTOR C2
Investment period	**Jan 2005 to July 2008**	**Jan 2005 to Dec 2009**	**Jan 2005 to Dec 2011**	**Jan 2005 to Dec 2013**
SIP	₹43,000	₹60,000	₹84,000	₹1,08,000
Value of SIP	₹55,750	₹91,786	₹1,01,982	₹1,66,883
XIRR	15.25%	17.56%	5.58%	9.55%

Let's take the case of another investor who lost faith midway of a planned SIP investment from Jan 2005 to Dec 2014. In this case the investor exited at the sign of first dip in Dec 2011. His monthly SIP investments of Rs 1,000 in the S&P BSE Sensex of Rs 84,000 were worth Rs 1,01,982 at an XIRR of 5.58 per cent, had he waited for two more years and stayed invested till Dec 2013, his monthly SIP investments of Rs 1,000 in the S&P BSE Sensex of Rs 1,08,000 were worth Rs 1,66,883 at an XIRR of 9.55 per cent. In Dec 2014 his monthly SIP investments of Rs 1,000 in the S&P BSE Sensex of Rs 1,20,000 were worth Rs 2,30,158 at an XIRR of 12.68 per cent and he would have gained the most if stayed invested for ten-year course till Dec 2014. This is yet another example of opportunity loss by exiting very early or earlier than a planned investment time frame.

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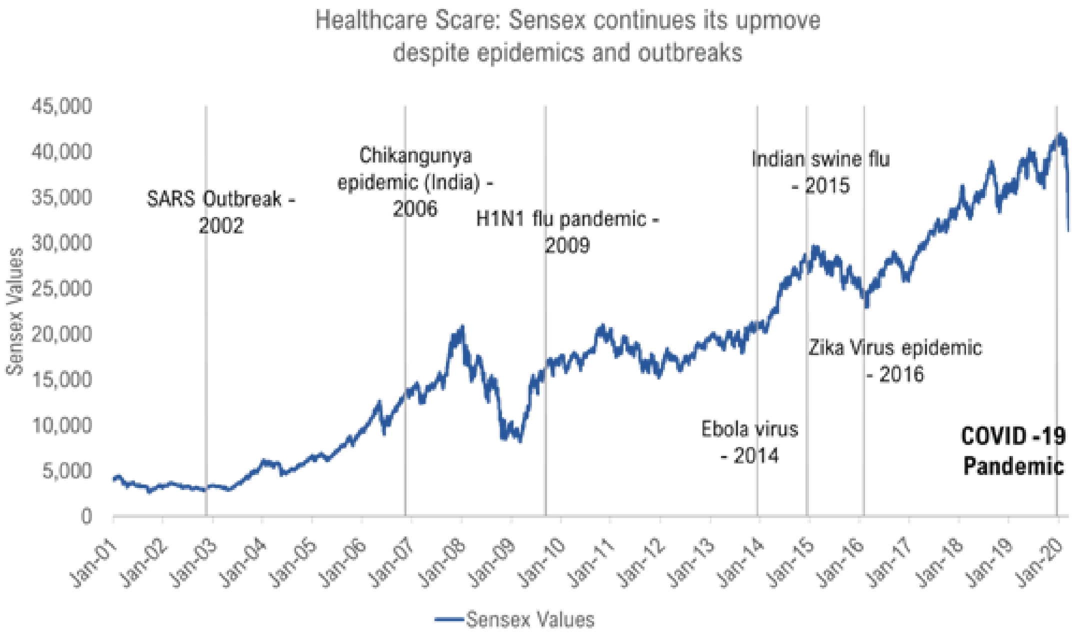
Pays to be disciplined and patient

Patience when investing in stock markets pays those investors who stay the course. The two decade from 2000 to 2019 has witnessed several down and up cycle, including several healthcare scares like the current Novel Corona virus pandemic (See: Healthcare scare). There have been several other events to impact the stock market performance – dotcom crisis, formation of UPA-1 with the support of communist parties, global financial crisis, Brexit, Demonetisation among others.

The lesson for investors from the above cases is to stay the course for as long as possible or at least till their financial goal is achieved for which the investment has been commenced in the first place. Equity investments do come with their share of short-term fluctuations and dips; however, when investing through SIPs, such fluctuations even out over time and investors also stand a chance to gain from the market falls. Investing in equities is advisable when it is done for the long-term with a clear timeline and preferably with a target goal in place. Do not lose faith in the stock markets over short-term dips, as over the long run, return from investments in equities goes up.



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