e-ISSN 2320 –7876 www.ijfans.org
Vol.11,S Iss.1, 2022
  UGC CARE Listed (Group -I) Journal

A DESCRIPTIVE ANALYSIS OF SYSTEMATIC INVESTMENT PLANS: INVESTORS' PERSPECTIVES

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ABSTRACT

Mutual funds mobilize savings from investors which are invested in a diversified portfolio of securities in capital and money market to generate good returns with the mitigation of risks involved in investment. SIP or Systematic Investment Plan is a plan offered by these mutual funds to inculcate the habit of savings and disciplined investment among public. SIP investments are increasing each month projecting an upward trend in future. However, there have been swings in the increasing trend due to high market volatility. Nevertheless, both individual and institutional investors are attracted towards SIP investments. SIPs allow investors to contribute fixed amount regularly at periodic intervals instead of lumpsum payments which beats the risks arising due to frequent market fluctuations. The SIP can be customized according to the requirements of investors and alterations can be made to existing SIP with higher flexibility compared to other mutual funds. SIPs can be made without any financial goal. But most of the investors invest in SIPs with specific investment goals such as dream home, education and marriage of children, tax savings and so on. The SIPs overcome risks related to inflation and market instability. Moreover, investors have greater control over investment. With the e-KYC facility, the investors can easily start SIP with the websites of fund house or AMCs. Investors can easily open Demat account for SIP by pre-deciding the investment amount, tenure and frequency of payment. The fixed amount that is automatically debited from savings account as per the standing instructions given to bank makes the investment more convenient for investor. This paper intends to provide an insight into the benefits offered by SIPs such as Rupee Cost Averaging and Compounding Power and other aspects related to SIPs which could be useful to beginners as well as existing investors.

Keywords: Systematic Investment, Market Volatility, Investment Goal, Rupee Cost Averaging, Compounding Power

1. INTRODUCTION

Mutual funds involve investing the pool of savings collected from many investors in debt and equity capital market instruments including bonds, debentures and shares. The capital appreciation and the income generated from the investments are shared to the mutual fund holders according to the proportion of number of units held by investors. The Systematic

Investment Plan or SIP is becoming attractive option to the individual investors recently due to the features and benefits offered by the mutual fund plan. The main advantages to investors opting SIPs are rupee cost averaging, irrelevancy of market timing, compounding effect and requirement of lesser investment amount compared to other mutual funds that needs lumpsum investment. The minimum investment amount of 500 rupees makes the SIPs an attractive option among middle income class investors. The investors need to pay a nominal amount as fees to the professional fund managers who are assigned with the task of managing funds systematically. The amount collected from investors are used in purchasing different stocks, shares and bonds in the securities market and managed well by professional managers. The investments in mutual funds or SIPs are generally invested in three kinds of securities which are equity, debt and money market instruments. The money market instruments in which mutual fund investment is made comprise of Repurchase agreement and call money market. The equity market consists of shares and other equity related securities. On the other hand, the debt market instruments are debentures, bonds, Treasury bills, commercial papers and Government securities.

2. Background of Study

SIP is a mean open to retail investors to make disciplined investment and facilitate investors to enter the equity market without undertaking huge risks. The investors cannot skip the instalment due to automatic debit of amount from bank account which inculcates savings habit. The fund inflows though SIP investments are estimated to be increasing each month. The factors that attract investors to SIPs are lower investment amount, regularity, lower risk, assured returns in long-run, availability of wide alternatives, easy method of investment with the support of digital infrastructure, and simple product offerings among many other appealing factors. The enhanced participation of individual investors in the equity-oriented SIPs shows the penetration level of SIPs among individual investors. The SIPs generate optimum returns in the long-term through rupee-cost averaging and thereby reducing the volatility risks in the short-term. The flow from SIPs are increasing as the investors need not be concerned about the market timing and the increased fund flow instils confidence among the fund managers to take informed decisions based on predictions made.

3. Rationale of Study

The mutual fund industry witnessed significant growth due to the SIPs that are relied on mostly by small investors. Full trial commission model had been adopted by the MF industry as per SEBI regulations and the upfronting commission had been banned. Nevertheless, the upfronting of trial commission is allowed on SIPs at 1 percent for new investors investing in SIPs and the upfronting is allowed for a maximum 3 year period for new investments to encourage the inflow of funds in SIPs. The Assets Under Management (AUM) increased by leaps and bounds following the exponential growth in monthly SIP contributions. The SIP accounts almost tripled during the three year period 2016-19 due to the improved fund flow from retail investors. Moreover, regardless of the market volatility and turbulences during the period, the investment in the equity-oriented SIPs increased. The SIP accounts show steady upward trends with increased contributions. The fund flow had been moderate during 2017. However, the 2019 witnessed significant growth in SIPs that surpassed the growth rate of immediately preceding years. The research studies of CRISIL reveal that the risk of negative returns diminishes gradually over the long-term. Furthermore, the analysis showed that the gap between minimum and maximum returns narrowed over long-run. SIPs are such mutual fund product that help in mitigating risk and generates wealth over long-run. The chance of wealth augmentation increases over time due to the compounding effect.

4. Discussion and Analysis

Systematic Investment Plans are mostly suitable for beginners who do not have proper knowledge about securities market. Investors need not have expertise regarding market timing to purchase units. The SIP gives an investor gets an opportunity to invest in share market without considering and making any predictions about share price movements. The investor simply needs to invest a particular amount at regular intervals. The investment amount shall be debited from the savings bank account of the investor automatically based on the standing instructions provided by the investor. This is similar to the recurring bank deposits. Nevertheless, the SIPs offer more returns compared to Fixed Deposits and Recurring Deposits. SIPs provide higher returns irrespective of the fund performance, market performance and inflation. SIP is the most convenient form of investment in mutual funds as regarding the common laymen. The number of units received by the investor on each investment depends on the NAV or Net Asset Value. The investor is benefited by purchasing more units when the NAV or share price falls and purchases lesser units when the NAV or share market price rises. Therefore, the per unit average cost will be lesser than average per unit sales price irrespective of market fluctuations which is called the rupee cost averaging.

The regular SIPs are the simple types of SIPs in which investors periodically invest a fixed amount or contribution by determining the contribution amount, tenure and frequency of investment in the beginning. But the investors do not have the option to change the fixed contribution amount in a future date. A beginner in securities market or an investor who has clear idea regarding investment goal and tenure can opt the regular SIPs. Considering the major types of SIPs, the top-up SIPs that provides the investor an opportunity to periodically improve the SIP contributions at pre-determined intervals according to increase in income levels and gives more returns and generates more wealth compared to the regular fixed amount SIPs. These kinds of SIPS are suitable for salaried persons who are getting increments regularly. Hence, the SIP contribution shall get adjusted automatically as per the salary hike by providing standing instruction to banks and fund house. This option can be chosen by those persons who have started working as this will inculcate savings habit among them. The SIPs are normally made for a period of one, three or five years. However, the perpetual SIPs are those schemes that offer the investors an option to stop the SIP contribution after giving a communication or specific instruction in writing to fund house to stop the investment. The end date is not fixed on the starting date of investment in case of perpetual SIPs. The investment can be redeemed on meeting the financial goals. Perpetual SIPs can be opted if the investor does not have any specific investment goal or tenure in mind.

The flexible SIPs are those that provide the investor with the option to enhance or decrease the instalment amount based on the cash flow. The investors can change the amount decided to be invested before seven days of the instalment due date. Investors can make more contribution on receiving additional income or bonus. Similarly, investors can skip payments and decrease instalment amount when the cash flow reduces. Furthermore, investors can change the contribution amount based on marker movements. More units can be purchased by increasing contribution when is market is moving up and decrease contribution when markets are down. Similarly, when the investors do not have steady flow of income due to financial problems, then the contribution can be easily reduced under flexible SIP schemes.

The trigger SIP is relied on by experienced investors as there are chances of speculation. As the name suggests, trigger SIPs help investors to set triggers that enable to automatically switch to another scheme or redeem money on the basis of market fluctuations and sudden swings and movements in market. The investors in trigger SIPs can set the NAV, SIP start date and many other factors. The investment is made by trigger SIPs only when a designated event happens which can be something favourable to investor such as a favourable market movement, or favourable change in NAV or index figures. For instance, the investor can set the trigger to purchase units only when the NAV falls below a specific level. Trigger SIPs are generally opted by those investors having expertise regarding market dynamics which means the stock market movements.

- **SIP as a Mechanism for Disciplined Investment**

Mutual fund industry boosts the habit of disciplined investment through SIPs which is evident from rising number of SIP investors and increasing contributions to SIP accounts. The mutual fund industry that is keen on spreading awareness regarding financial freedom, literacy and other behavioural aspects of investment succeeded in optimizing wealth creation through SIPs that benefited both investors and industry. The Google analysis of trends shows that the SIP growth rate steadily rises despite the decline in the number of search queries through the platform.

One of the literature reviews on SIP conducted a SWOT analysis of SIP. The analysis reveals that the rupee cost averaging that reduces the average investment cost over time helps investors to accumulate wealth and maximize the invested amount through disciplined and systematic investment. The investors need not be bothered about mark timings and the compounding power helps in capital appreciation over a long period of time. The requirement of very small investment amount each month encourages the habit of investment among low-income and middle-income class families which provide such people an opportunity to invest in securities market. As regards the weaknesses, the investor is required to invest fixed amount each month without any fail up to a specified period of time. However, some companies allow investors make investments fortnightly, bi-monthly or daily basis as per convenience of investors in regular SIP plans. Furthermore, the companies may impose the burden of entry and exit loads on investor for investing and exiting from scheme. The effect of averaging costs facilitates investors to earn more money from both debt and equity funds that has high volatility. The benefit of deriving maximum out of equity fund is actually an opportunity to investor to make use of market fluctuations.

- **Risk and Returns Association**

The possible threat to SIP schemes can be from STPs or Systematic Transfer Plans that enable investors to make investment on a daily basis instead of a quarterly or monthly scheme. In this scheme, the investors can follow up the movements of market on daily basis and the rupee cost averaging and compounding effect are expected to provide more benefits in STP plans compared to SIP schemes. The SIPs are preferred mostly by people expecting more yields with lowest possible risk. However, *higher the risk, higher the returns.* SIPs are suitable for those who do not have lumpsum amount of money to invest, but have the appetite to make investment in capital market.

Determination of investment objectives and systematic planning help the investors decide the investment amount, the period and scheme of investment. Many studies found that the young investors having high risk appetite are more inclined towards the SIPs which is anticipated to boost the capital accumulation in mutual funds in future. The lack of knowledge about the SIPs is one of the primary reasons for hesitation among people to invest in mutual funds. The banks and other financial institutions can conduct awareness campaigns to raise awareness regarding SIPs and other beneficial mutual fund schemes for the welfare of public in general. Salaried employees can choose SIP plans as these schemes that allows to automatically invest a fixed sum over a specified period instils financial discipline

- **Opening a SIP Account and Functioning**

Investors can start SIP through brokers or through online mode. An investor can easily start SIP online by following the five step guide. The compliance of KYC (Know Your Customer) formalities through e-KYC that requires the online submission of photograph, identity and address proof is the first stage. The In-Person Verification that confirms the physical existence of the investor can be performed in online mode with the fund house in e-KYC. However, if the fund house does not offer e-KYC, then the investor can comply with KYC formalities by registering with the KYC registration agency of the Karvy and CAMS (Computer Age Management Services). After KYC compliance, the investor is required to visit the website of mutual fund and create a new online account for transactions through the registration link for new registration. After creation of new account, investor can log into the account, select the desirable scheme, provide a date of starting investment and submit the request. This simple process of starting investments in SIP without any complexities attracts new investors towards SIP.

SIP investment fund can be used as an emergency fund in case of emergencies as the amount can be redeemed from Demat accounts through simple procedure. Certain factors should be kept in mind before making SIP investment. One such factor is the duration of SIP and the duration should be determined based on tax burden, risk and return anticipated by the investor. The investors must examine the performance and reputation of the fund houses before selecting the SIP plan. Investors must check the Assets under Management of the fund house and analyse how the funds are managed during the ups and downs of the market to make the right decision according to investment objective or goal. The right plan is chosen as per the investment goal, risk appetite and several other factors. Moreover, the funds or SIP plans can be customized and changed by following simple process. The first step in the process is to stop the current SIP investment through a request or application on a paper. The current plan or fund ceases to exist within 15 days. Thereafter, the investor should give new application for the fund chosen in the prescribed format along with SIP registration form and a One Time Mandate (OTM) or National Automated Clearing House (NACH) form. The investor then deposits the initial investment with an authorized representative after filling up all the details.

- **Tax Benefit (Section 80C)**

As regards the tax benefits, the investors can avail tax benefits under sec 80 C of Income Tax Act, 1961 in case of investments in Equity-Linked Savings Scheme (ELSS) or other tax savings schemes of government. Mutual funds investment in SIPs is made according to risk profile of investor, the horizon of investment and investment goal. Conservative investors hesitate to invest in high-risk schemes due to the fear of possible losses from market volatility. The market analysts suggest schemes to investors based on various factors. Therefore, investors are required to make a thorough analysis of the expert opinion or seek expert advice before making investments. The debt funds usually have very low risk; but do not generate many returns in the long-run. So, the conservative investors who need high returns in long run can go for aggressive hybrid funds that invest majority of investment say around 70-80 percent in stocks or equity and the remaining part in debt funds. This portfolio-combination helps to achieve higher returns in long term without taking much risks of market volatility. On the other hand, the moderate investors who seek wealth creation in long-term can invest in SIPs making investments in flexi-cap funds. These funds invest across various sectors and market capitalizations in stock market based on the perspective of the professional fund managers.

The equity or growth oriented mid-cap mutual funds have been reported to have generated high returns in past few years. The AMFI sources reveal about mid-cap funds that have generated more than thirty percent in past three years and the SIPs based on these funds yielded higher for investors. Investors can rely on the SIP calculators available online to get a rough estimate of returns on SIP, estimate the maturity value at the end of tenure based on the projected growth rate, contribution made and specific tenure. However, the returns may change based on various factors and the expenses ratio and exit-load charges are not considered in calculation.

Apart from meeting the long-term goal requirements, the SIPs could be used to achieve gains from short-term market movements. A technical analysis and predictions of the market dynamics are necessary to do so. An investor for instance can invest in gold ETFs or ETFs based on Nifty for a period of one year to achieve short-term gains and the trading gains can be either re-invested in SIPs based on market performance or can be invested in Bank FDs. The commission expenses paid to broker can be eliminated by directly investing in the plan of the Asset Management Company. Furthermore, investment made in ETF based SIPs through brokerage firm also helps to save expenses. The monthly mutual fund statements needs to be periodically examined to check that the units purchased are correctly entered in the demat account.

5. CONCLUSION

SIPs are the most convenient form of mutual funds that can contain the risks arising due to market instability. Over the long run, SIPs over better returns compared to other mutual fund plans. Nevertheless, investors are required to make a securities market analysis to choose the best SIP and the portfolio combination. While funds are broadly classified into equity, debt and hybrid funds, a detailed analysis can be made to derive maximum benefits in the long term. The upward trend in the growth of the SIPs over the past few years regardless of the market volatility is evidence of the increasing preference for SIPs. Many investors hesitate to invest in equity market and SIPs are the best option for such investors. However, financial institutions could make awareness regrading SIPs among the general public to pool more and more savings which shall be ultimately contributed to the economic development of the nation.

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