

**Art of Investing –SIP By SIP**

*Timing the markets to perfection is a task many have failed at. However, investing regularly can help the investors override the market swings.*

*Systematic Investment Plans (SIP), offered by mutual fund houses, provide an easy and time-tested solution to regular investments.*

**What is SIP**

SIP is an easy-to-use facility which helps you accumulate capital while earning market returns, without pressurizing the monthly budget. All it takes is a one-time application to the fund house for a specific scheme for predefined terms and amount (which maybe as little as Rs 500 for some schemes) to get the option activated.

The amount can be paid by post dated cheques or can be directly transferred from your bank account through ECS. Thereafter, a periodic investment is made to the extent of the fixed amount opted for. The number of units purchased would depend upon the prevailing net asset value (NAV) of the fund scheme, at the time of investment.

**SIP-In Action**

Regular investments through SIP help build a corpus over a period of time. Let’s see how an investor who invests a small amount of Rs 2000 monthly for six months brings down his cost of investing by using SIP facility.

**Illustration 1**

Date	SIP amount	NAV	No. of units purchased
01-04-2009	2,000	10.55	189.573
01-05-2009	2,000	12.24	163.399
01-06-2009	2,000	11.51	173.762
01-07-2009	2,000	12.58	158.983
01-08-2009	2,000	13.69	146.092
01-10-2009	2,000	14.18	141.044

**Average NAV: 12.458**

**Average purchase price: 12.334**

The average purchase price of 12.459 is less than the average NAV of 12.57. SIP may not guarantee profit but works on simple principle of weighted average giving larger weights to lower prices and lower weights to higher prices.

SIP is an ideal instrument to tap the long-term potential of equities, regardless of the market fluctuations. An investor can make provision for any of his future goals by investing regularly in the MF through SIP. This is shown below.

**Illustration II**

Financial Goal	Time Line	Amount Required (Rs.)	Monthly-investment Required (Rs.)
Home Loan Down-payment	5 Years	10 Lakhs	12,809
Child Higher Education	10 Years	15 Lakhs	7,262
Retirement Corpus	25 Years	50 Lakhs	3,737

*\*(Assumed investment made at the beginning of month and growing at the rate of 10 per cent year on year).*

**Advantages of using SIP**

**Rupee cost averaging:**

It enables the investor to space out his investment over a period of time, thereby ‘averaging’ the cost incurred. An investor, typically, gets more units when prices are low and fewer units when prices are high. The net result is a reduced average cost per unit. This is clearly visible in Illustration I above.

**Avoid Market timing**

SIP removes the necessity of constantly tracking the market movement. In the long run, instead, with SIP, one can use these swings to one’s advantage. SIP is attractive for the simple reason that people prefer multiple bets to one-shot risks.

**Removes emotions**

Using SIP inculcates a disciplined investing habit and helps to stay unaffected emotionally by market movements. SIP cultivates an excellent savings habit as it mimics the regular deposits in a defined contribution plan or a recurring deposit plan.

**Power of Compounding**

Regular investing helps wealth grow in two ways – firstly, there is periodic addition to the existing investment corpus and, secondly, there is the appreciation of the already invested capital, over a period of time.

Thus, investing regularly can help you fill your financial bucket SIP by SIP.

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