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An Investor Education and Awareness Initiative from HDFC Mutual Fund

INVESTOR EDUCATION
AN INVESTOR EDUCATION AND AWARENESS INITIATIVE FROM HDFC MUTUAL FUND

ADVERTORIAL

{ SYSTEMATIC INVESTMENT PLANS (SIPs) }

SURE, SAFE WAY TO WEALTH CREATION

AN SIP IS A DISCIPLINED INVESTMENT PLAN AND HELPS REDUCE SUSCEPTIBILITY TO MARKET FLUCTUATIONS

THE SENSEX is buoyant and equity markets seem headed for a fantastic bull run. However, when it comes to investing in the market, many small investors hesitate. How should you therefore, avoid or minimise the effects of an extremely volatile stock market? Given the choice between the asset classes, and the yo-yoing of almost every fund, should you dare to invest in it at all? What if there was a middle path?

A Systematic Investment Plan (SIP) is ideal for investors who have a regular flow of money (such as the salaried class). It uses this same volatility to the investor's advantage. It is a disciplined investment plan and helps reduce susceptibility to market fluctuations. In fact, it is a powerful tool that helps you accumulate savings and also translates into substantial wealth creation in the long run. It helps individuals to invest in mutual funds at regular intervals — say every month or every quarter.

So how does it work? You need to fill in a simple form to enroll for an SIP. This enables the transfer of money from the designated bank account to the chosen mutual fund scheme. This amount can be as low as Rs 100 per transaction. Investors thus can transfer their hard-earned money from their bank account to a mutual fund seamlessly at regular intervals. When you invest a fixed amount, you buy fewer units when the Net Asset Value (NAV) is high and more units when the NAV is low.

An SIP has been a boon for investors with a low risk appetite. Rupee cost averaging and compounding are added advantages. The tenure may be different under different schemes, but it is advisable to stay invested for a longer period so as to maximise your returns.

SIPs can be used by investors of all ages.

You should never discontinue an SIP in weak market conditions or when the markets fall sharply, as this will defeat the true purpose of investing through an SIP.

TABLE 1 captures the Net Asset Value (NAV) movement of a mutual fund scheme. Mr. A invested Rs 1,200 in this scheme on January 1, and since the NAV remained Rs 10 on December 31, he has not earned anything. But Mr. B decided to take the SIP route as shown in *TABLE 2.* He invested Rs 100 each month and the fund house allotted units to him at the then prevailing NAV. On December 31, he is earning returns of 12.17%, thanks to his SIP, that enabled some buying even at the lower level during the intermittent period.

Thus, though an SIP does not assure a profit or guarantee protection against a loss in a declining market, it reduces timing risk, in addition to offering a seamless investment experience.

HOW SIPs HELP YOU EARN MORE

TABLE 1: MR A'S INVESTMENT

DATE	NAV
1-Jan	10
1-Feb	10.05
1-Mar	10.59
1-Apr	10.02
1-May	9.8
1-Jun	9.02
1-Jul	8.5
1-Aug	8.02
1-Sep	8.5
1-Oct	9.01
1-Nov	9.95
1-Dec	10.05
31-Dec	10

TABLE 2: MR B'S INVESTMENT USING SIP

DATE	NAV	AMOUNT	UNITS	TOTAL UNITS	COST OF INVESTMENT (₹)	VALUE OF INVESTMENT (₹)
1-Jan	10	100	10	10	100	100.00
1-Feb	10.05	100	9.95	19.95	200	200.50
1-Mar	10.59	100	9.44	29.39	300	311.24
1-Apr	10.02	100	9.98	39.37	400	394.49
1-May	9.8	100	10.20	49.57	500	485.79
1-Jun	9.02	100	11.09	60.66	600	547.15
1-Jul	8.5	100	11.76	72.42	700	615.57
1-Aug	8.02	100	12.47	84.89	800	680.82
1-Sep	8.5	100	11.76	96.65	900	821.53
1-Oct	9.01	100	11.1	107.75	1,000	970.83
1-Nov	9.95	100	10.05	117.80	1,100	1,172.11
1-Dec	10.05	100	9.95	127.75	1,200	1,283.89
31-Dec	10			127.75		1,286.44
XIRR: 12.17%						

MAXIMISE SIP GAINS WITH THESE STRATEGIES

THE BEST THING ABOUT SIPs IS THAT THEY TAKE EMOTIONS OUT OF THE INVESTING DECISION. HERE ARE SOME SMART STRATEGIES TO MAKE THE MOST OF YOUR SIPs

Whether it is linking SIPs to goals, or increasing the amount every year in line with the increase in income, these ideas will help you maximise the gains from your SIPs.

LINK SIPs TO FINANCIAL GOALS

Link SIPs to financial goals, such as buying a house, funding your child's education, providing for the down-payment of your house, or for retirement planning. It is better to quantify the financial goal in both parameters, time and money. This will not only let you monitor the progress of the investment for that goal, but will also tell you how much you need to save every month. Spelling out the goal also lets you choose the most appropriate asset mix for achieving it. This depends on the time frame available for the goal. If you have more than 10 years, the asset mix should be heavily tilted towards equities (70:30), as the time frame allows you to take on a higher degree of risk. For short-term goals within the next five years, debt investments should form the major chunk of the portfolio.

This approach requires that you first identify your goals, the time horizon and the cost of the goal at the future date. For example, if you expect your child's marriage to cost Rs 10 lakh today, you should better be prepared to accumulate Rs 30 lakh, at 8% rate of inflation, if you are planning her marriage 15 years from now. It not only gives you a target value, but also allows you to decide your SIP investment amount.

INCREASE SIP AMOUNT EVERY YEAR

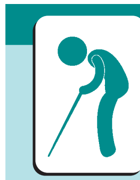
After defining the financial goals, most people lose heart — either they find the target amount too big to achieve or they do not have adequate monthly saving to start investing a prescribed sum in SIPs. For example, to accumulate Rs 30 lakh in 15 years, you have to start investing Rs 6,500 each month in SIP, assuming 12% rate of return. Do not shun your plans if you do not have that much amount of money.

Although SIPs help you invest regularly, it does not mean you should keep the amount fixed over the entire tenure. As your income rises, your savings will also go up. Ideally, for a salaried person, the investment amount should increase every year in line with the increase in his income. The SIP allocation may not rise in the same proportion every year, but should at least follow the rise in income. If you get that much deserved 25% salary hike in a particular year, you should ideally divert a higher portion towards your SIP investments. This means you can target larger goals even though your current income does not allow big investments.

You should start with whatever you have, say by starting SIP of Rs 2,000 per month, and gradually increase your monthly SIP amount. Rising income should lead to rising savings, which in turn can be used to increase the SIP amount. If your SIP amount surpasses what was stipulated, there is a high possibility that you will reach your financial goal much before the scheduled date. The strategy of increasing your SIP amount each year, will not only help you achieve financial goals but also enjoy peace of mind.

The step-up SIP can have a dramatic effect on your long-term savings. Even a 10% increase in the SIP amount can give you a significantly bigger nest egg. The surplus savings need not be directed to an SIP in another scheme. Instead, one can simply increase the existing SIPs. Also, having separate SIPs for different goals does not mean that you invest in different funds.

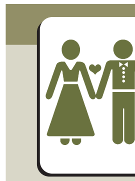
RETIREMENT



Target Corpus: ₹ **75 lakh**
Time Available: **20 years**
Suggested Asset Mix: **Equity 80% / Debt 20%**

SIPs REQUIRED
Fund A (equity) .... ₹ **3,800**
Fund B (equity) .... ₹ **3,000**
Fund D (debt) .... ₹ **1,700**
Total SIP Amount ..... ₹ 8,500

CHILD'S MARRIAGE



Target Corpus: ₹ **30 lakh**
Time available: **15 years**
Suggested asset mix: **Equity 75% / Debt 25%**

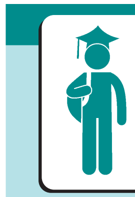
SIPs REQUIRED
Fund A (equity) .... ₹ **3,000**
Fund B (equity) ...... ₹ **1,875**
Fund D (debt) .... ₹ **1,625**
Total SIP amount .... ₹ 6,500

DOWNPAYMENT OF HOUSE

Target Corpus: ₹ **10 lakh**
Time available: **5 years**
Suggested asset mix: **Equity 30% / Debt 50% / Gold 20%**

SIPs REQUIRED
Fund B (equity) .... ₹ **4,125**
Fund D (debt) .... ₹ **6,875**
Fund E (gold) .... ₹ **2,750**
Total SIP Amount .... ₹**13,750**

CHILD'S EDUCATION



Target Corpus: ₹ **25 lakh**
Time Available: **10 years**
Suggested Asset mix: **Equity 60% / Debt 40%**

SIPs REQUIRED
Fund B (equity) .... ₹ **3,600**
Fund C (equity) .... ₹ **3,600**
Fund D (debt) .... ₹ **4,800**
Total SIP amount .... ₹ **12,000**

At assumed rates of return (annualised) for Equity Funds - A B C :12%, Debt / Gold Fund - D & E : 8%

STAGGER THE SIPs TO AVOID BUNCHING

Fund houses have specific dates on which SIP investments are made. Whether you are planning an SIP through the same set of funds, or different funds for each goal, it would be wise to stagger each investment across different dates of the month. This allows you to retain some liquidity in your savings account since the money does not flow out at one go. The bigger advantage is that you reduce the risk of market timing because the money gets invested on different days. If you are adding to an existing SIP, while giving a fresh mandate for the additional investment, you can specify any other date of the month on which the SIP installment has to be paid out.

TIP FOR THE MONTH

SIPs in ELSS have a 2-in-1 benefit: tax benefit and wealth creation!