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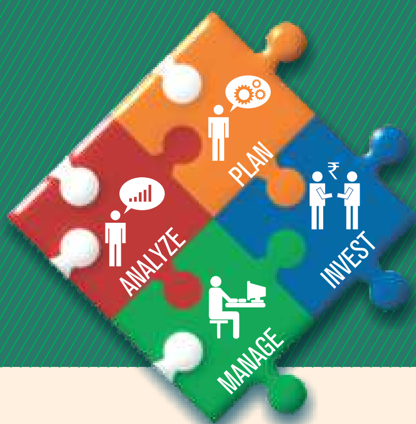
SIP OR LUMPSUM?



If you are already a mutual fund investor or a prospect looking to test the waters, you would have come across two different modes of investing being on offer, which are:

a. Investing small amounts periodically, also called as Systematic Investment Plan or SIP and

b. Investing a lump sum amount, once or many times.

There is no 'better way' of these two as these modes work differently across time points.

The SIP mode

SIP is a facility offered by mutual funds under which you can invest specified amounts at fixed intervals into your preferred mutual fund scheme. For example, you may want to invest Rs.5,000 on the 5th of every month into "Growth scheme" of ABC Mutual Fund. With just a one-time standing instruction, you can have this transaction executed automatically for as long as you want. But remember, your investment frequency could be even monthly, quarterly or half yearly. The benefits of this facility are:

> You are spared of the hassles of repeated paperwork and cheque writing.

> Your tight work schedule and inertia will not hinder your investment activity.

> As your investment happens across time periods, market fluctuations tend to get better absorbed leaving you with a potentially lower risk scenario.

To illustrate:

Date	Amount invested	NAV	No. of units purchased
05/09/15	5000	102.56	48.75
05/10/15	5000	103.89	48.12
05/11/15	5000	101.44	49.29
05/12/15	5000	99.79	50.10
05/01/16	5000	102.52	48.77
05/02/16	5000	104.38	47.90
Total	**30,000**		**292.93**

Since your Rs.5,000 buys more units when the NAV is down and vice-versa, your average purchase price works out to Rs.102.41 against the average NAV of Rs.102.43 thus lowering your total cost of acquisition of units.

SIP would be suitable if

> You are looking to deploy your regular monthly savings automatically.

> You are anxious about the movements of the equity market and would like to minimize the downward impact, if any.

The Lump sum mode

The other mode of investing is to invest a lump sum amount whenever you have a surplus. This does not call for any periodical commitment on your part. Though a seemingly simple process, one needs to discount the possibility of a steep market fall after you have made your investment. In today's globalized financial markets where news and crises in one part reflect across the globe instantly, you would need to be mentally prepared for quite a few swings in the market mood. No doubt if you happen to enter the market at its low point and ride the up-move, you will have more attractive returns than an SIP investor who invests all along the up-move. So, for this mode to work, you will have to get your timing of entry and exit into the investment right, either by luck or design.

Lump sum mode would be suitable if

> You have the conviction that equity markets are at very attractive low levels and the downside is very limited.

> If your investment amount is a very small percentage of your total wealth. You have a very long investment horizon of say 20 or 30 years as the temporary fluctuations in the interim would then blur out.

As can be seen, neither of the two can be termed superior. Depending upon your situation and risk appetite, pick the mode that suits you. A disciplined investor will be able to invest well through both modes but, for most people, SIP is a tool that helps build their corpus bit by bit.

Regular investments can be made from savings through SIP and any windfall money can be invested through lump sum mode.

Please consult your financial advisor before investing.

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Mutual fund investments are subject to market risks, read all scheme related documents carefully.