Make your money work by SIP

Leave emotions out of investing.

Make disciplined investments. Start a SIP offered by mutual funds.

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

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Taste equity, SIP by SIP

Equity Markets are on a roll, tempting us to invest. But given the interim bouts of volatility associated with the equity markets, the key dilemma playing out in our minds these days is — Should I wait or should I take the plunge? While investing in Equities in inevitable if we want to keep inflation from eating into our money’s worth, a more viable approach is to do it gradually, SIP by SIP.

Systematic Investment Plan or SIP, which is offered by mutual fund houses, is perhaps the best way to invest in equities. There is no denying the fact that equities tend to be volatile in the interim, but then they are also known to outperform every other asset class in the long run. So staying out of it means a lot of missed opportunities to make your money grow.

Now market volatility can neither be predicted nor can it be tamed, but a disciplined and systematic approach in investing into it through SIP can surely help one sail through the high and low tides of equity investing.

Make every rupee count

No matter how little your savings are, mutual funds offer several ways to divert them into meaningful investing. SIP is one such way that gives your investing a disciplined approach. Under SIP, one can start investing from as little as ₹ 500 in a mutual fund scheme at pre-specified intervals, monthly or quarterly.

The number of units you get on each installment is based on the scheme’s prevailing net asset value (NAV). By investing this way, you not only avoid the temptation to cash in on the market’s volatility but also follow a disciplined approach to investing that helps to average out the cost of your investment over a period of time. SIPs are available on all MF schemes, but they are most effective in equity schemes. While SIPs help in protecting you from the biggest risk of equity investing, which is timing the market, mutual funds per se give you the freedom from tracking the market on a regular basis as investment decisions are taken by expert fund managers who manage your money. They take all the hassle to help your money grow while you focus at your respective jobs.
Weigh up Prudence over Luck

No one likes to lose money and so most of us try to time the market to maximise returns on our investments. But what’s a good time? There is no such time as good time to invest in equities. If you are investing for the long term, any time is a good time. In fact, long-term investors need not bother about daily or weekly market movements as the returns get averaged out in the long run even if they plunge or rise in the interim.

Let’s take the example of three friends, Manish, Aashish, and Shweta. The three decide to invest in the equity market, say CNX Nifty, starting from year 2000. While Manish and Aashish decide to invest ₹12,000 each year, for 14 years, depending on the market conditions, Shweta starts a monthly SIP of ₹1,000 in an index fund tracking CNX Nifty during the same period.

Now, Manish invested on days of market peaks every year. Ashish was lucky, he picked the time when the market hit the bottom level each year. After 14 years, Manish made ₹3,69,706, Ashish got a neat ₹5,85,774 and Shweta bagged a decent sum of ₹4,33,270.

Ashish was lucky and that’s exactly what you need – lots of luck – when you time the market. But not everyone strikes it lucky. So, if you choose prudence like Shweta and invest regularly in an organised manner, you can earn optimum returns from the market over a period of time without taking undue market risks.

Making it count

Like Shweta, investing regularly in a disciplined manner can help you get optimum returns from the market.

1. Manish put his lump sum amount each year when the markets were really high
2. Ashish turned out to be lucky, investing lump sum every year at a time when the markets where at the bottom
3. Shweta chose prudence and decided to invest regularly in a disciplined manner
4. Total amount invested by each one is ₹1.68 lakh

Disclaimer - Equity investments is represented by the value of CNX Nifty/Index Fund from the year 2000 onwards. The illustration above is merely indicative in nature and should not be construed as an investment advice to any party.
Don’t time the market, say **Experts**

Timing the market is a bad idea. Even the best brains can’t outsmart it

- “After nearly 50 years in this business, I do not know anybody who has done it (market timing) successfully and consistently.”
  - John C. Bogle in *Common Sense on Mutual Funds*
- “I tell people (investing) should be dull. Investing should be like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas.”
  - Paul Samuelson in *The Ultimate Guide to Indexing*
- “No one, not pundits from the big brokerage firms, the writers, not even your fund manager or broker can predict where the market will go tomorrow or next year.”
  - William Bernstein in *The Four Pillars of Investing*
- “Timing the market is for losers. Time in the market will get you to the winner’s circle, and you’ll sleep a lot better at night.”
  - Michael LeBoeuf in *The Millionaire in You*

**Little drops of water make an ocean**

For retail investors, investing in mutual funds through SIP makes sense. After all, investing a lump sum amount at the wrong time can severely affect your returns. Instead, investing regularly in a disciplined manner, helps discipline one’s investment habits. Contributing small portions to your investment portfolio, on a regular basis, lets you align your investment to your income and financial goals. We all know that little drops of water make an ocean. If you continue to invest regularly, you would be able to build a stable portfolio gradually. So why risk it all by timing the market when optimal gains can be achieved through disciplined investing.

**Don’t let emotions cloud your judgment**

Many great bull runs have slipped on panic. Investors, who put in their money systematically, hold on to it patiently and don’t let emotions cloud their judgment, are the ones who gain in the long run. Remember, time in the market is more important than timing the market and SIPs in a way debar emotions from interfering in investment decisions.
When you invest through SIPs, you have the flexibility to opt for Electronic Clearing Service (ECS), which gives you the freedom of investing on a monthly or quarterly basis. All MFs have predetermined dates of any given month on which an investor can make regular investments in SIPs. For instance, if you receive your salary on the first of every month, you can choose the seventh or tenth of every month as your SIP date. But if you get your salary, say, by the end of the month, the first of the following month could be an ideal date. There are two ways to register your SIP with the fund house either through post-dated cheques or via ECS. All fund houses provide direct debit facility with major banks. In case of cheques, you need to give post-dated cheques (at least 12) to the fund house.

So dip into SIP because:

1. Can be started with amount as small as ₹500
2. Makes you a disciplined investor
3. Keeps you away from timing the market
4. Helps you build a meaningful corpus gradually
5. Helps you better tackle volatility by capturing both highs & lows of the market and balances risk by rupee cost averaging

The more, the merrier
SIP works best in volatile market as you accumulate more number of units at lower NAV

<table>
<thead>
<tr>
<th>Month</th>
<th>Rising market NAV (%)</th>
<th>Falling market NAV (%)</th>
<th>Volatile market NAV (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>10</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Feb</td>
<td>11</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>March</td>
<td>13</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>April</td>
<td>15</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Average</td>
<td>12.25</td>
<td>10.75</td>
<td>9.75</td>
</tr>
</tbody>
</table>

Disclaimer - The above is for illustrative purpose only. Rupee cost averaging neither ensures profit nor protects you from making a loss in declining markets.

How to go about it

To start your SIP, you need to fill up a common application form along with an ECS mandate form. With the common application form you open an account with the fund house, which is called folio number. With the ECS form you give your mandate to your bank to debit your account for the SIP amount you have chosen.
Things to keep in mind when you pick a SIP

1. Choose an amount you are comfortable investing every month
2. Decide on the date of ECS before signing up
3. Ensure liquidity before investing in schemes that have a lock-in period such as equity-linked saving schemes (ELSS)
4. Ensure requisite funds on SIP date
5. It normally takes 30 days to register and terminate the SIP after application, so plan accordingly
6. In case you are investing in two different schemes, opt for two different dates. This will help you to average out your investment in a better way

Be patient with **SIP**

*When the market* sees a slump, many investors discontinue their SIP fearing they might lose their money. When the market is on a roll, investors either redeem their investments or migrate to low-risk instruments such as fixed income or debt fund. SIP investments are not something that you should compare on a yearly basis. It works in the long-run, ideally over 10-15 years, when the market goes through many cycles, which they usually do.
Baby steps to a big wallet

The other fascinating beauty of SIPs is that it can help you accumulate a meaningful corpus over the years without pinching your wallet. For instance, if you started investing ₹5,000 each month in S&P BSE 200 in 1999, the current value of your investment will be around ₹36,96,697, with a compound annual growth rate (CAGR) return of 16 per cent. Now isn’t that a magical figure? Mutual fund is a relative investment product so the job of your fund manager is to beat market returns over the years. Even if your fund manager manages to outperform the benchmark, say by 5 per cent and your scheme delivers 21 per cent CAGR return, the value of your investment now would be over ₹59 lakh.

Worth every penny
What ₹5,000 invested per month in S&P BSE 200 would end up as:

<table>
<thead>
<tr>
<th>Start date</th>
<th>SIP period</th>
<th>Amount invested</th>
<th>SIP returns (%)</th>
<th>XIRR</th>
<th>Current value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 2011</td>
<td>3 yrs</td>
<td>1,80,000</td>
<td>18.12</td>
<td></td>
<td>₹2,62,751.69</td>
</tr>
<tr>
<td>Jan 2009</td>
<td>5 yrs</td>
<td>3,00,000</td>
<td>14.98</td>
<td></td>
<td>₹4,79,076.90</td>
</tr>
<tr>
<td>Jan 2007</td>
<td>7 yrs</td>
<td>4,20,000</td>
<td>12.19</td>
<td></td>
<td>₹7,00,211.59</td>
</tr>
<tr>
<td>Jan 2004</td>
<td>10 yrs</td>
<td>6,00,000</td>
<td>13.54</td>
<td></td>
<td>₹13,24,217.68</td>
</tr>
<tr>
<td>Jan 1999</td>
<td>15 yrs</td>
<td>9,00,000</td>
<td>15.95</td>
<td></td>
<td>₹36,96,697.43</td>
</tr>
</tbody>
</table>

SIP started on the first business day of the respective calendar year. Value as on 01 September 2014

Disclaimer - Past performance may or may not be sustained in future. The above investment simulation is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. SIP does not ensure a profit or guarantee protection against a loss in a declining market. XIRR method is used to calculate SIP returns.

SIP your way to financial wellness

As an investor, your focus should be on earning more and not timing the market. So invest in equity through SIP as per your financial goals and not market conditions. Patience and prudence with your investments will help you reach your financial goals early. All you need to do is pick a fund with a good track record and invest in it gradually through SIP*. SIP works best as a long-term strategy and doesn’t make your stomach churn when the market is in a fit.

Why Mutual Funds

A mutual fund is a financial product that pools money from different individuals and invests it on their behalf into various assets such as equity, debt or gold. They offer simplicity, affordability, professional management, diversification and liquidity. You benefit from the professional expertise of fund managers, whose costs are shared by thousands of investors like you, making it cost-effective. Also it offers schemes to suit your specific investment needs. There are equity schemes for investors who are willing to bear a greater risk, debt schemes for investors who are risk-averse and balanced schemes for those willing to take a little of risk.

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