THE ECONOMIC TIMES | MUMBAI | MONDAY | 13 FEBRUARY 2012

Why SIPs Make Sense even when Debt Seems to Score

Madhu T & **Prashant Mahesh** explain why investors should not stop systematic equity investments during a weak market even though bank deposits offer more

Every pundit on Dalal Street has his favourite 'retail' joke. "Retail investors have only one strategy: Buy when the market is at all-time high, and sell when it is at all-time low. The best strategy to lose money in the market," laughs a seasoned stock broker, who never gets tired of repeating the story. "I used to tell my team it was time to scoot when worthless IPOs would start getting subscriptions from small towns you have never heard of," jokes a mutual fund manager, who prefers not to be named.

Well, these jokes were out of fashion in the last two years. Suddenly, the same people were talking about the 'mature' retail investors and their commitment to the market. The proof is in the systematic investment plan (SIP) numbers, they would aver. However, it seems, the celebration was a bit premature. Guess what, investors are back to what they do the best: Selling or getting out when the market is low. Probably, they will also get back when the market recovers.

As per the data from Karvy Computershare, a registrar of mutual funds, the number of SIP investors dropped sharply to 80,823 in 2011-12, from 3.16 lakh in 2010-11. According to CAMS, another registrar, new SIP registrations dropped from 23.65 lakh to 18.9 lakh during the same period. "It is due to three different reasons. One, equities are not doing well. Second, even mutual funds are pushing debt products at the moment. Third, there is still a distribution vacuum created by the ban of entry load on mutual funds," says Mukund Seshadri, founder, MSVentures Financial Planners. For example, a SIP in HDFC Top 200, the scheme with the largest asset under management (AUM) at more than ₹10,000 crore, has given a return of 6.5% in the past year (if you had put in money using the SIP route every month, this was the return you would have got) HDFC Equity Fund, the scheme with the second-largest AUM, has given a negative return of 1.71% while Reliance Growth has given a return of a mere 3.46% in the same period. Compared to such uninspiring performance, bank and company fixed deposits are offering returns in the range of 9%-11% per annum. This difference in returns, according to MF distributors, has resulted in investors closing their SIPs and shifting money to fixed income instruments.

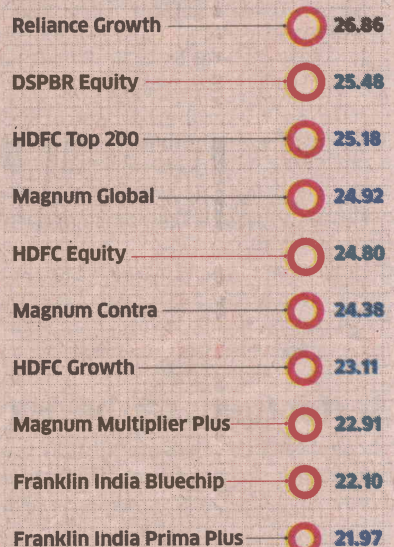
But is it a smart strategy? Sure, it may make sense if you look at the numbers in the short term. However, it could prove a huge mistake if you look back after a longer period of, say, 10 years. "Keep your SIP running for a longer period and do not stop it in downturns. You will lose out a chance to make money in the long term if you stop your SIP midway when the market tanks," says Ranjit Dani, a certified financial planner. In fact, that statement encapsulates what SIP stands for. The whole idea behind starting a SIP with an equity scheme is to go on investing regardless of the market conditions. In that sense, SIPs help you control your emotions and go ahead with your long-term investment plans in equity. Another important feature of SIP is that it helps you buy more number of units when the market is down, this would help you to average your cost of holdings in the MF scheme of your choice.

Look at the numbers for yourself. According to mutual fund tracking firm Value Research, those who have stayed invested in good MF schemes for 10 years have pocketed handsome returns. Reliance Growth tops the list with an annualised return of 26.86%, followed by DSPBR Equity at 25.48% and HDFC Top 200 at 25.18%. In fact, even the worst performing SIP, Taurus Discovery Fund, delivered 8.23% while JM Equity delivered a return of 11.11% in the period. Sure, some self-proclaimed pundit may tell you that you could have done better if you timed the market, but always remember that timing the market is easier said than done.

"We advise investors to do equity SIPs for a minimum period of seven to 10 years. They should link equity SIPs to their long-term goals such as children's education, retirement or buying a house," says Anil Chopra, Group CEO, Bajaj Capital. "If you are investing ₹10,000 per month in SIPs, split it up into four or five funds. Have a mix of large-cap, mid-cap, value style and thematic funds as part of the SIP portfolio." Experts like him reiterate SIPs are the best way for individuals to enter the stock market, as it imparts discipline and also one can invest as little as ₹50 a month in an equity scheme. Just identify a scheme from a good fund house that has been a consistent performer over the past five years and start investing in it. And don't forget to review the performance of the scheme regularly.

Steady Performers

Schemes with the Best 10-year SIP Returns (in %)



As on 9th February 2012; *All returns are annualised

SOURCE VALUERESEARCH