



SYSTEMATIC INVESTMENT PLAN – A COMMON MAN DREAMS ENABLER

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INTRODUCTION

India is a country with all classes of people, rich, middle and poor. When it comes to the development of the country steps have to be taken to curb the poor class from the economy ups and downs. For this savings habits have to be inculcated among them and saved amount has to be invested in securities to earn good returns. But investing in securities needs huge funds and this is not possible with this section of people. For investing in securities in an easy way mutual funds have been introduced in the Indian markets. Mutual fund is an instrument which helps an investor to invest in an easy way. On top of it Systematic Investment Plan, which further makes an investor to invest in equity and bonds in installment basis. This paper throws light on this new technique of Systematic Investment Plan to invest in mutual funds.

SYSTEMATIC INVESTMENT PLAN (SIP)

A systematic Investment Plan is a regular investment plan enabling investment in mutual funds. It is a hassle free and smart style of investment in mutual funds. A certain constant amount is invested at a regular interval say weekly, monthly, or quarterly. As mentioned earlier it inculcates the savings habits among investors and further helps in building wealth for the future.

An investor generally identifies the scheme as per his risk profile and invests a predetermined amount in the asset class at the fund's prevailing net asset value (NAV). The ongoing market value of the portfolio is called as Net Asset Value or NAV. If an investor invests a sum of rupees 1000/- at a NAV of Rs.10/-, he or she receives 100 units of the fund. If he invests Rs.1000/- every month, the number of units accruing in periodic investment is dependent on the NAV of the scheme that is prevailing at the time of the purchase of the fund.

PROCESSING OF SIP

According to the instructions given to a bank, money is automatically debited from one's bank account and invested into a specific mutual fund scheme. A certain number of units based on the ongoing market rate (called NAV or net asset value) for the day are allocated.

Every time on a specific day of every week, or day of every month at the convenience of the investor a constant amount is invested, additional units of the scheme are purchased at the market rate and added to the investor's account. Hence, units are bought at different rates and investors benefit from Rupee-Cost Averaging and the Power of Compounding.

Benefit of Rupee-cost averaging means that since the market is volatile and investor being a regular investor, the money he invests may fetch more units when prices are low and less number of units when prices are high. On an average it may result in lower price per unit. Power of compounding means, in simple words it is earning interest on the interest earned. Generally interest is earned on the principal amount invested, this is called as simple interest method, but getting interest on this interest earned is compounding technique. Compounding technique benefits an investor in getting huge returns.

BENEFITS OF SYSTEMATIC INVESTMENT PLANS

Disciplined Saving - Discipline is the key to successful investments. When one used to the habit of Systematic Investment plans, the habit automatically inculcated in one individual and accordingly plans other spending. It becomes regular saving and this habit becomes systematic as one forwards more. When an individual starts invest through SIP, one commit themselves to save regularly. Every investment is a step towards attaining one's financial objectives.

Flexibility - While it is advisable to continue SIP investments with a long-term perspective, there is no compulsion. Investors can discontinue the plan at any time. SIP allows one can also increase/ decrease the amount being invested. Thus paves way for flexibility.

Long-Term Gains - Due to rupee-cost averaging and the power of compounding SIPs have the potential to deliver attractive returns over a long investment horizon. Normally long term will fetch more gains to the investors, though amount invested in small units only.



Convenience - SIP is a hassle-free mode of investment. One can issue a standing instruction to their bank to facilitate auto-debits from one's bank account. That is once instructions are given automatically transactions are carried by the instructed Bank.

CONCLUSIONS

The best thing about SIPs is that they take emotions out of the investing decision. The investor need not vacillate whether the market is down or wait for things to brighten up before he enters it. If he is investing through an SIP, he will automatically invest on the specified date of the month. The benefits don't stop here. If mutual funds help investors to diversify across a basket of stocks, SIPs help him diversify over time. By spreading the investment across a long period, the investor is able to average out the cost of purchase. This is also a convenient mode for those who do not have lump sum money to invest. Unfortunately, not many small investors are able to harness the power of SIPs to their advantage. It has often been noticed that when the markets go down, many small investors stop or terminate their SIPs. This defeats the whole purpose of investing through this mode. By stopping the SIP during a market slump, the investor forgoes the chance to buy more units at a lower price, which can yield a good return when the market turns around. On the whole it can be concluded that Systematic Investment Plan is an ideal mode of investment for retail investors who do not have the resources to pursue active investments.

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