



**SIPs**  
A disciplined  
approach to  
wealth creation

## SIPs - A disciplined approach to wealth creation

All market-linked investments go through ups and downs with equities exhibiting more volatility than debt.

Systematic Investment Plan (SIP) offer an apt avenue to counter this volatility and thus create long term wealth.

The concept is similar to recurring bank deposits wherein you contribute a fixed sum at regular intervals.

### How do SIPs help?

- **They make market timing irrelevant**

SIP's biggest advantage is that it negates the need to time the market. In timing the market, one can miss the larger rally; one may stay out in a bull run or may enter in a bear phase as one can never accurately predict how the market may behave in the future. Investing at regular intervals ensures that one is invested both at the high and the low points of the market, and make the best of an opportunity that is otherwise difficult to predict.

- **Rupee cost averaging**

SIPs make the market volatility work in favour of an investor and help in averaging out the cost – commonly referred to as “rupee cost averaging”. For example, with Rs 1,000 one can buy 50 units at Rs 20 per unit or 100 units at Rs 10 per unit depending upon whether the market is up or down. Thus, more units are purchased when a scheme's NAV is low and fewer units when the NAV is high. Hence, when the two cases are taken together, the cost is averaged out. The longer the time frame, the larger are the benefits of averaging.

- **Lighter on the wallet**

An often-heard excuse for not investing is lack of funds. SIPs take care of this problem by lowering the minimum investment amount. You can start a SIP with an amount as low as Rs 1000 (Rs 500 in case of Equity Linked Savings Schemes) per month.

- Continuing SIP investments in a bear phase delivers superior results**

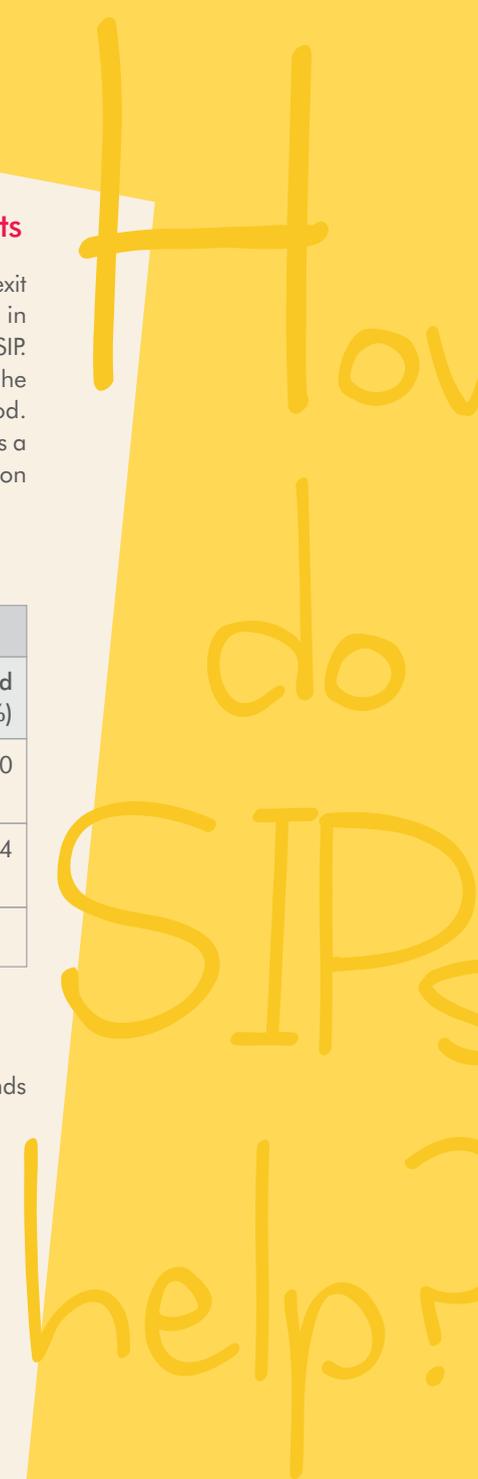
A big mistake that investors make is exiting SIP investments when markets start falling; this exit can impact portfolio returns significantly. Let's assume investor A discontinued his SIP in December 2008 (during the credit cum liquidity crisis), while investor B continued with his SIP. If you compare the returns, B has continued to generate almost similar returns as A did till he exited. This is despite the volatility seen by the equity markets in the latest five year period. Further, A has also benefited from the power of compounding in the longer term period as a difference of Rs 57,000 has yielded nearly Rs 3 lakhs post December 30, 2008 mainly on account of power of compounding and higher market returns during the upturn.

Table 1- Continuing SIP investment across market cycles

SIP of ₹ 1,000 per month in an Equity Scheme from January 1, 2002			
	Amount Invested ₹	Redemption Amount ₹	Annualised Returns (%)
If SIP is discontinued after 7 years on December 30, 2008 (Mr A)	84,000	1,82,687	21.80
If SIP is continued till September 30, 2013 (Mr B)	1,41,000	4,80,669	19.44
Difference	57,000	2,97,982	

Illustration above is mere assumption. Equity Scheme is a simulated diversified equity scheme. Returns quoted above are for explaining the concept. Past performance may or may not be sustained in the future.

In a nutshell, SIP is a good medium for retail investors to create wealth via equity mutual funds in a disciplined manner, and without taxing the pocket.



## Starting a SIP in simple steps

Step 1	Step 2	Step 3	Step 4
Decide the scheme - Fill up the 1 page scheme application form	Decide an amount and a date on which you want the amount to get deducted	Fill up ECS mandate form (Decides the monthly amount that gets deducted from your bank account automatically)	Submit the completed forms to Axis AMC offices

A SMS confirmation is sent each month after the debit reflecting the units credited in your folio

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details on the go.



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\*Buy\* means purchase and \*Sell\* means redemption of units of Axis Mutual Fund schemes.

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