

Why not to discontinue SIP during turbulent times?

Current Scenario:

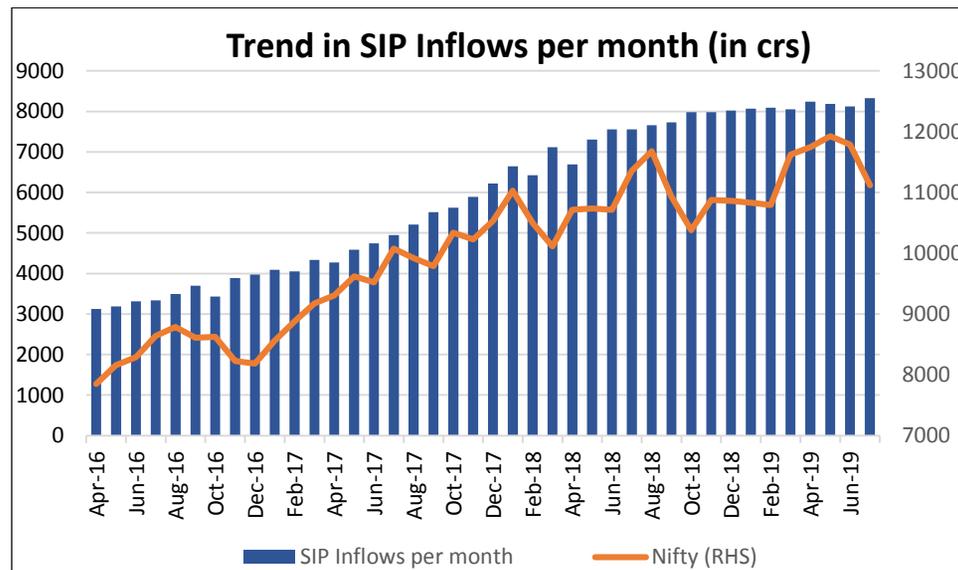
Domestic stock markets have been on a roller-coaster ride, recently. The fear gauge of the Indian equity market has ticked up significantly amid concerns of domestic cyclical slowdown, low GDP numbers on the back of weakness in private consumption and investment, stress in many sectors, global trade tensions and recessionary indicators at global level.

Equity markets have remained under pressure in the last 18 months and mid and smallcaps have corrected more than the largecaps. Investors who started investing in the last 2 years through the SIP mode, have seen their overall return enter the negative territory. In these volatile market conditions, many investors tend to stop their SIPs or redeem the invested amount even in losses in a state of panic.

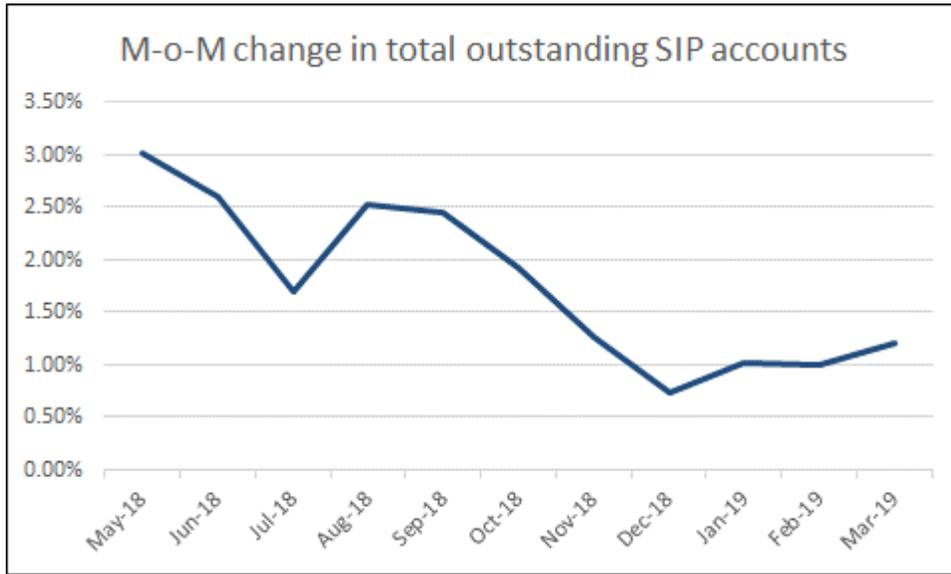
It is sad to note that every time there is a drop in stock markets, investors re-think on their SIP investments. Some even take the drastic step of suspending SIPs. They may want to take money out, fearing a longer and deeper market correction. Stopping SIPs is totally against the reason why investor started SIPs in the first place i.e not worrying about timing the market. How will investors gain more units by investing the same amount if stock prices do not fall? In fact, SIP Investors should be happy that a correction has happened because now one can buy more MF units via SIP. Such premature ill-timed exit could impact the portfolio returns significantly as it fails to get the benefit of lower average costs.

Investors can use the ongoing volatility as an advantage and turn this market correction into an opportunity for potential long term wealth creation.

Total amount invested through SIPs in equity-oriented mutual funds surged despite frequent bouts of market turbulence indicating this route helps investors sidestep the behavioural weakness that emerges during volatile market phases. The growing size of SIPs and the number of SIP investors showcase the mutual fund industry’s efforts to inculcate the habit of disciplined investing.



SIP monthly inflows has been growing and steady at more than Rs 8,000cr, but there has been a significant increase in the number of SIP accounts discontinued in FY 18-19. SIP inflows have been steady as the new SIP accounts registered are more than those discontinued. In FY 18-19, the total no of SIP discontinued rose to 68% y-o-y, while total new SIP accounts fell by 5.90% y-o-y.

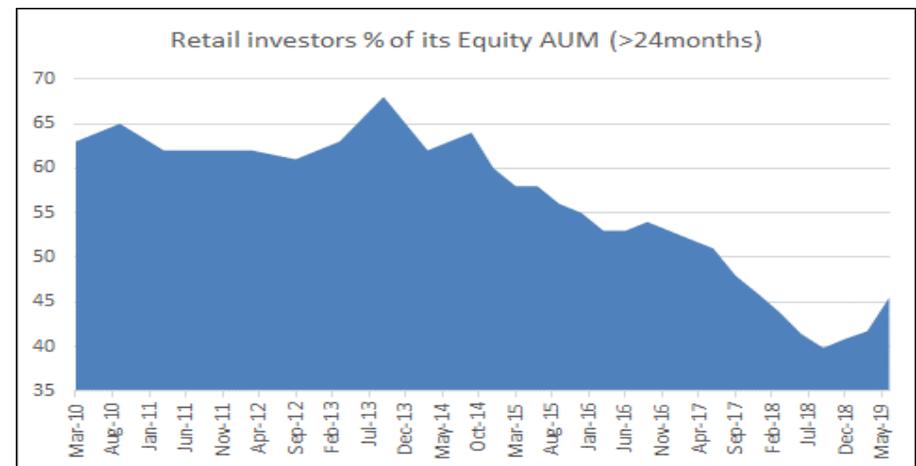


Month	No. of new SIP registered (lakhs)	No. of SIP discontinued (lakhs)	SIP contribution (Rs in crore)
Apr-18	8.8	3.99	6,690
May-18	10.36	3.83	7,304
Jun-18	10.34	4.52	7,554
Jul-18	10.16	6.26	7,554
Aug-18	10.7	4.82	7,658
Sep-18	10.64	4.79	7,727
Oct-18	9.35	4.66	7,985
Nov-18	7.58	4.44	7,985
Dec-18	7.23	5.36	8,022
Jan-19	7.97	5.36	8,064
Feb-19	7.54	4.96	8,095
Mar-19	8.87	5.76	8,055

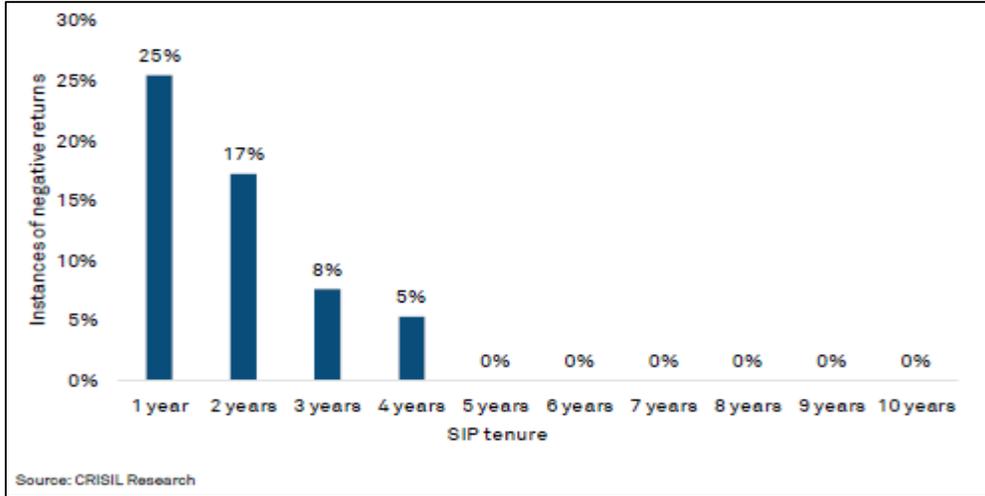
From the above table, peak discontinuance in SIPs happened in July 2018 when the markets were rising sharply. This suggest that retail investors chose to discontinue SIPs when their SIP value displayed good returns.

SIPs for Long Term:

Trend in Age-wise analysis of assets under management of Retail investors' equity AUM shows that retail investors have started to increase proportion of their equity AUM in >2 year holding bucket since Sept 2018. This proportion kept falling from a peak in 2013 as in a rising market lumpsum investors chose to book profits in older holdings in the rally since 2013 at shorter period intervals. However SIP investors seemingly did not cash out prematurely in a big way.



SIPs are long-term products and are very useful in wealth creation and risk reduction over a longer investing horizon. An analysis by CRISIL shows that the risk of getting negative returns reduces over longer investing horizons.



Benefit of Rupee Cost Averaging:

Rupee cost averaging is an approach or a benefit wherein the investor can buy more units when prices are low and less when prices are high. Ideally speaking, most investors want to buy stocks when the prices are low and sell them when prices are high. But timing the market is time consuming and risky.

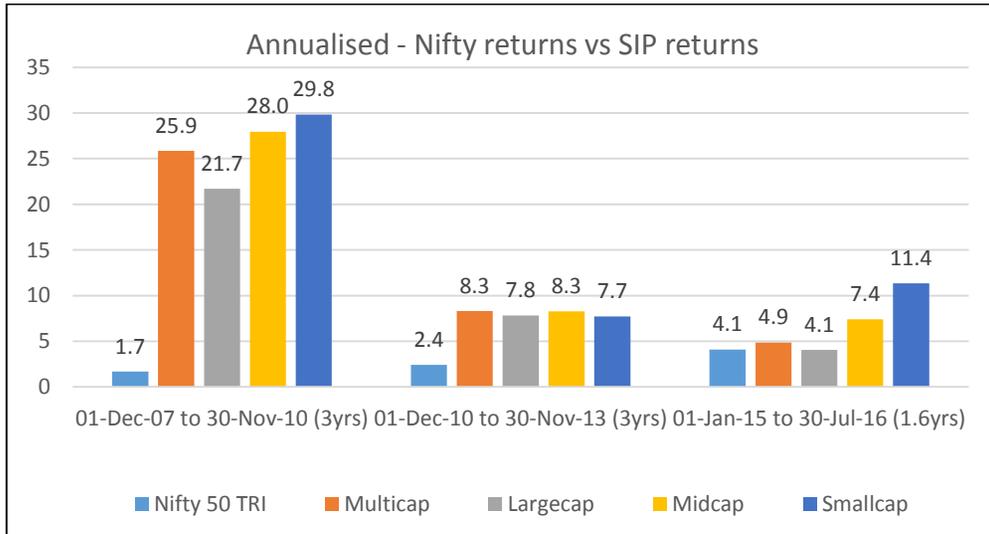


Chart alongside showcase, how much rupee cost averaging benefits SIP investors after market correction. Nifty having regained the same levels post correction works in favour of SIP investors as shown below, where SIP annualised returns (XIRR) are more than lumpsum investment in Nifty 50 TRI.

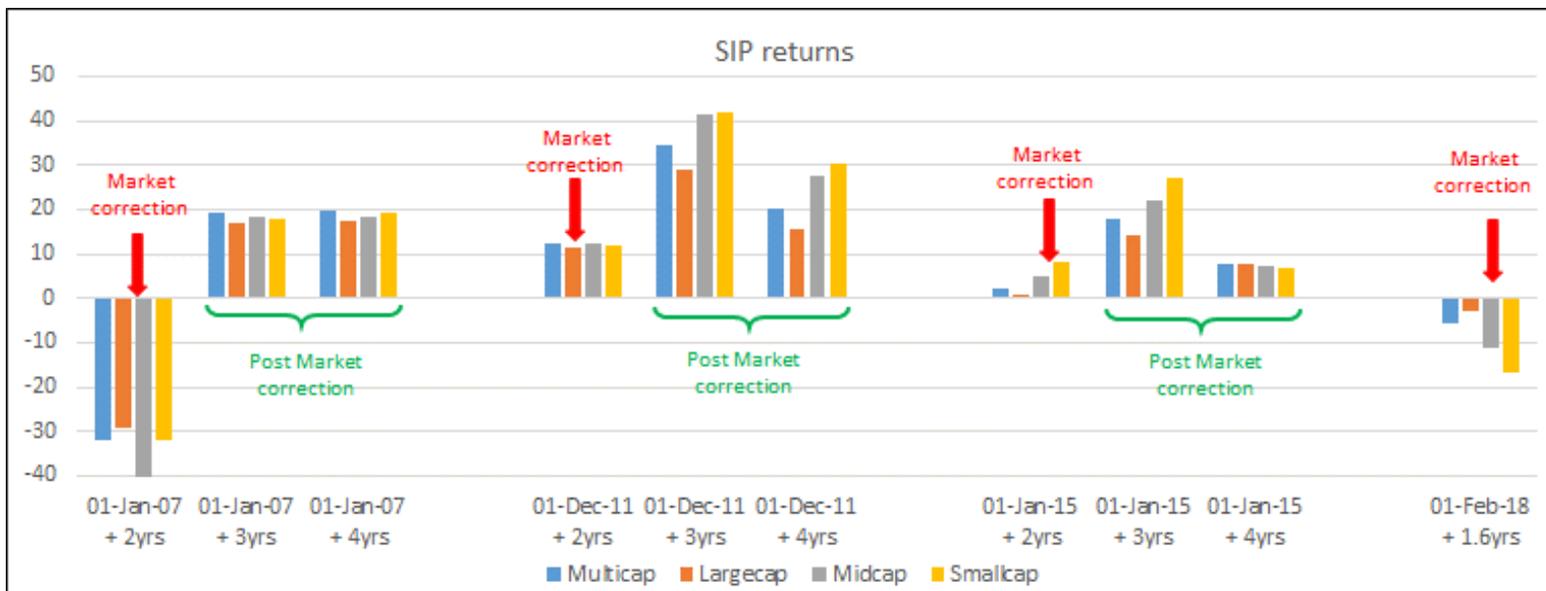
Period 01-Dec-07 to 30-Nov-10 is an exceptional situation where the markets saw big crash and quick recovery due to the Global Financial Crisis, such stellar SIP returns post market correction may not be possible in near future.

Note: Nifty 50 returns is CAGR%. Multicap, Largecap, Midcap & Smallcap represents average category SIP returns (XIRR%). Category average is based on the current SEBI classification. Source: ACEMF.

Why not to discontinue SIP during turbulent times?

Many investors make the mistake of discontinuing their SIP investments when market falls. As discussed above, **this exit could impact the portfolio returns significantly as it fails to get the benefit of lower average costs.**

Investors shouldn't worry about stopping SIPs when the market is declining. In fact, that is the period when an investor can accumulate more units at a cheaper cost and then benefit from the eventual up move in the markets. SIPs are done by investors to meet long-term goals and should be done for at least 5 years. They should not be worried about near-term volatilities or small negative returns in the near-term. Corrections are the best time to accumulate maximum numbers of units for the future.



Note: Two years prior to the date when markets were at bottom or near bottom has been picked as the starting date of SIP. Multicap, Largecap, Midcap & Smallcap represents average category SIP returns (XIRR%). Category average is based on the current SEBI classification. Source: ACEMF.

The above chart shows how an investor gains after market corrections, if he stays invested for atleast 1 year more. An investor would have accumulated more units at lower NAV thus boosting his overall returns when the market recovers.

An investor who wants to exit or is in need of funds, can consider redeeming after one year post completion of market correction. As can be seen from the above chart, maximum SIP returns are posted after one year from market correction. Post that some weakness and signs of new correction starts to reappear which again tends to reduce the overall return.

Investors aiming for wealth accumulation should not consider exiting, as SIP brings in a disciplined approach to that objective. Also review of schemes invested through SIP mode at regular intervals is of utmost importance so that the investor don't bet their stakes in underperforming schemes.

Midcap & Small cap Funds are most impacted by market correction and will see faster recovery. As seen from the above chart midcap & Smallcap funds yielded more returns post correction than largecap & multicap funds most of the times. When markets are going through tough times, these categories should be the last to be considered for redemption.

What are the benefits of SIP?

- Reduces Risk because of Rupee Cost Averaging, which helps in lower volatility of returns. An approach or a benefit wherein the investor can buy more units when prices are low and less when prices are high. Rupee-cost averaging can help reduce the average cost per share over time (provided the investor does not stop SIPs in bear markets) and increase your profit when the cycle turns and markets start rising.
- SIP can be started with very small amount of money. SIP does not burden your wallets, as the outflow does not happen in one go.
- Timing the market is not necessary. Investors are always in a dilemma that if it is a right time to invest or not. Investing through SIP resolves this dilemma as it is a periodic investment which occurs across market cycles. The philosophy behind starting a SIP with an equity scheme is to go on investing regardless of the market conditions. Lumpsum investment will turn out better only if the investor manages to time his entry and exit correctly.
- Long term financial goal can be aligned with SIP. SIP is a perfect tool for people who have a specific, future financial requirement. By investing an amount of your choice every month, you can plan for and meet financial goals, like funds for a child's education, a marriage in the family or a comfortable post retirement life.
- Disciplined approach towards Investment helps in controlling the emotions. Regular investment makes you disciplined in your savings and also leads to wealth accumulation.
- SIP allows to benefit from the power of compounding. When you invest over a long period, you earn returns on the returns earned by your investment.

Conclusion:

Investments through an SIP can ensure steady returns. Ideally speaking, it is difficult to time the market. Whereas, with an SIP, investors can ride safely during market downturns and manage better returns if they stay invested through an entire market cycle. SIP investors need not to worry about the fluctuations or ups and down that are seen in the equity market. Investors can grab better returns in the next few months/quarters period if they stay invested during market fall.

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