SIP SAHI HAI
An Investor Education Initiative

HSBC Global Asset Management

SIPs for the middle-aged

Middle-aged investors may find it difficult to take to equities, which could derail their long-term goals. SIPs can help.

The SIP culture is spreading far and wide. Today many investors are benefiting from this useful yet simple concept. Awareness campaigns by both the mutual fund industry and media have popularised SIPs. However, this was not the case a decade ago, when SIPs and mutual funds were still new concepts. This has resulted in many middle-aged investors (those between 40 and 55 years) not opting for them and instead going for the traditional fixed-income investments, such as fixed deposits, the PPF and EPF, and other small-savings schemes. This has made their portfolios debt-heavy, with little equity component.

The problem with relying on fixed income is that your returns after inflation tend to be meagre. Also, over the last few years, the interest rates on fixed-income options have been downtrending. This could result in falling short of your desired corpus. This makes investing in equity inevitable for your long-term goals. Equity is the only asset class that has the record of beating inflation over the long term and growing your capital to meet your financial goals.

However, many middle-aged people have developed an aversion to equity because of its volatility. Middle age is also a phase of life when a person doesn't want to take much risk. There are many family-related responsibilities and one wants a stable life. Added to this is the lack of knowhow of how equity works or how to invest in it.

To reduce their risk, middle-aged investors can start with aggressive hybrid funds, which have 65–80 per cent equity and the rest debt . While they are called 'aggressive', they are less volatile than pure equity funds, thanks to their debt component. Also, invest in them systematically through SIPs. This will help you average your investment cost and further dampen the effect of volatility. Once you get used to the market volatility, you can switch to SIPs in pure equity funds.

Starting your SIPs is easy. Once you have chosen the funds that you want to invest in, you can go to the fund house's website and follow the instructions there to set up an SIP. You will be asked to link a bank account, from which your SIPs will be deducted every month. Alternatively, you can avail the services of a financial advisor, who will help you select the right funds and set up an SIP.

For middle-aged investors, there are two more challenges: they have less time remaining for their goals and their SIPs are insufficient. There are no easy solutions to these problems. You will have to first calculate how much you want to accumulate for specific long-term goals and then arrive at the corresponding SIP amounts. Explore some financial calculators online to arrive at the required numbers or seek help from a financial advisor. Then start your SIPs with whatever amount you can manage. If you have a large allocation to fixed income, you can move some of that to your SIPs and invest it over time. Plough in all your windfalls and bonuses into your SIPs to bridge the gap. Also, ensure that you increase your SIPs every year, in line with your annual appraisals. These steps should help you reduce the shortfall.

Last but not least, don't lose heart by looking at the required goal amounts if they turn out to be large. A journey of a thousand miles begins with a single step. SIPs are your single steps in your investment journey. ☑