SIP SAHI HAI
An Investor Education Initiative

HSBC
Global Asset
Management

SIPs for young earners

Young earners can benefit most from SIPs and compounding as they have more time in hand to achieve their goals

Youth is known not just for its energy but also for the freedom it brings, especially in financial terms. As one becomes financially independent, it appears that a new world opens up. All those things that you had wished to own suddenly come within reach. And of course, there is no dearth of avenues to spend. From that latest smartphone to the car of your dreams, from eating out at the best places to travelling to exotic locations – everything seems to be beckoning just you. Little surprise that many young earners end up with credit-card debt, an expensive lifestyle and little or no savings.

This doesn't have to be so. While it's okay to enjoy your present, it's imperative to also plan for the future. Young age is the best time to start saving and investing. You have limited responsibilities and hence can save more. You also have many years in front of you to achieve your goals. That means you can benefit more from the power of compounding. When you start saving and investing early, you can accumulate your goal amounts with less monthly contributions. Alternatively, you can accumulate more than needed and hence can create a cushion.

Let's say, you want to accumulate ₹1 crore by the time you turn 60. If you start investing in an equity fund when you are 25, you can accumulate this corpus with a monthly SIP of just ₹1,832. However, if you start investing when you turn 40, you will need to invest ₹10,974 monthly (assuming an annual return of 12 per cent in both the cases). Hence, the earlier you start, the better. When you are young, time is on your side and in investing, that is a big advantage because you have more time to benefit from the power of compounding.

Where do you start then? Begin with a financial plan. Establish your various short-, medium- and long-term goals. Short-term goals are those that are due within the next one or two years; medium-term goals are about three to five years away; and long-term goals are those that are over five years away. For instance, your short-term goal could be buying a vehicle; a medium-term goal could be a vacation; and a long-term goal could be your retirement or children's education and wedding. Estimate the amounts required for these various goals. Then use some online financial calculator or seek a financial advisor's help to figure out the monthly contributions required.

Mutual funds are especially useful for the young savers. That's because of their ease of investing, transparency and efficacy. There are a variety of mutual funds available. For short- to medium-term goals, choose from debt funds. For long-term goals, one can invest in equity funds through SIPs. While equity tends to be volatile in the short term, over the long term, it has the history of giving inflation-beating returns and creating wealth.

When you start investing in equity early, you don't just have more time to achieve your goals but you can also attune yourself to the market volatility. However, it is recommended that you invest in equity through SIPs as they help you average your investment cost. You can set up an SIP with the assistance from a financial advisor/distributor. Do increase your SIPs yearly with a rise in your income.

For young earners, SIPs can be a lifelong companion that will help them become ready for the subsequent phases of life. But don't forget that there's no time like the present. ☑