

Harness the power of systematic investment plans to achieve goals

March 2020

SIPs can help you cover your short term and long term goals

Short-term Goals



With a low monthly income of Rs 15,000, Uma is wondering how she can gift a vehicle to her father



25 year old Raghav is thinking of getting married in three years and intends to go to an exotic location for his honeymoon

Long-term Goals



Mr Sharma wants to go on a world tour with his family after retirement



Nisha and Aditya have dreamt big for their son. They wish to enroll him in a foreign university after 18 years

Everyone has goals, some short term, some long term, some might look achievable, while others might look improbable

Investors should not get disheartened nor lose focus from the goals instead disciplined and systematic SIP investments can help achieve both short-term and long-term goals.

Past performance may or may not sustain in the future and it does not guarantee or assure any future returns. Mutual Fund investments are subject to market risks, read all scheme related document carefully

Contribute little, gain immense

Small efforts can help you fulfill goals



Uma accumulated nearly Rs 28,000 for her father's scooter by carrying home-cooked meals for two years instead of eating canteen food. Investing the saved money of Rs 1,000 on a monthly basis helped her achieve this goal.



Raghav garnered nearly Rs 2.5 lakhs in three years for an exotic honeymoon by altering his lifestyle slightly and investing his savings of Rs 5,500 per month during this period.



Mr Sharma was able to generate a corpus of Rs 1 crore by the time he retired by saving just Rs 1000 a month for 35 years.



Nisha and Aditya saved over Rs 19 lakh for their son's studies by reducing discretionary expenses on shopping, thus saving Rs 2,000 per month over 18 years

The above calculations and potential appreciation of investments are given for illustration purposes only. The illustrative appreciation in SIP investments given above are based on the historic performance of 14% annualized returns of S&P BSE SENSEX i.e. average of daily annualized 20 years' rolling returns of S&P BSE SENSEX as at December 2019 and since June 1979 (Source: CRISIL Research).

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Set aside small sums regularly to achieve big goals

SIPs can assist you accumulate a corpus for:



Child's education

Monthly savings of just Rs 3000 could safely cover your child's education expense worth over Rs 18 lakhs after 15 years



Child's wedding

Saving as low as Rs 5000 each month for 20 years can help you create your child's wedding kitty worth around Rs 65 lakh



Retirement

Building a retirement nest of over Rs 3 crore isn't too big a task if you pool in Rs 6000 monthly for 30 years of work life

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A simple tool to disciplined investments



Frequent baby steps taken systematically over a period can help anyone achieve their dreams without giving up the good things in life.



One does not have to make much effort to invest at suitable opportunities. An auto-pilot option called Systematic Investment Plan or SIP can help you invest a fixed amount each month.

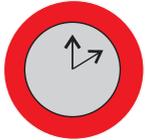


You can identify how much you need to save to achieve future goals – which may be many in number and extend over the course of a lifetime.

Benefits of SIPs



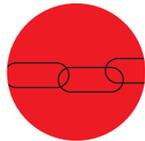
Reduces average price per unit paid through rupee cost averaging



Makes market timing irrelevant



Enhance investments as income grows



Provides compounding benefits

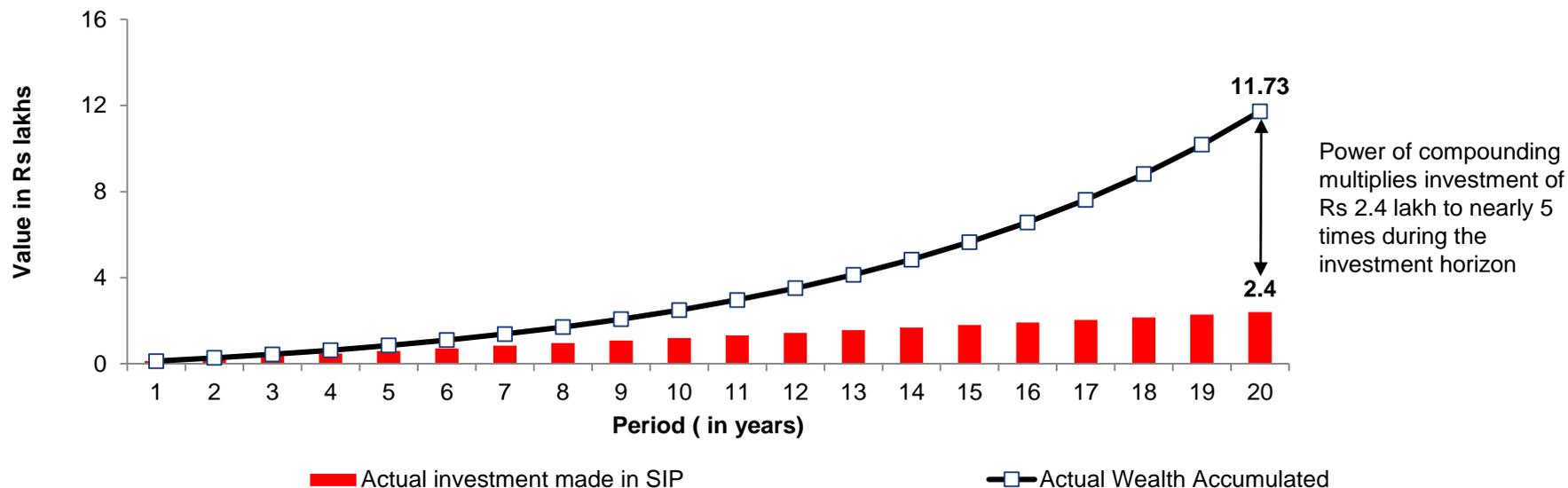


Instills investment discipline

It can be observed that when more the NAV falls, more units are accumulated and vice versa, thereby averaging out the cost.

Start SIP early to get the benefit of long-term investing

- ◆ To reap the benefits, save via Systematic Investment Plan early
- ◆ Longer the investment period, higher is the compounding effect of money. As Albert Einstein rightly said – “Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't... pays it”
- ◆ If an investor starts a SIP of Rs 1,000 in an equity mutual fund for 20 years his / her actual investment of Rs 2.40 lakh could catapult to Rs 11.73 lakh



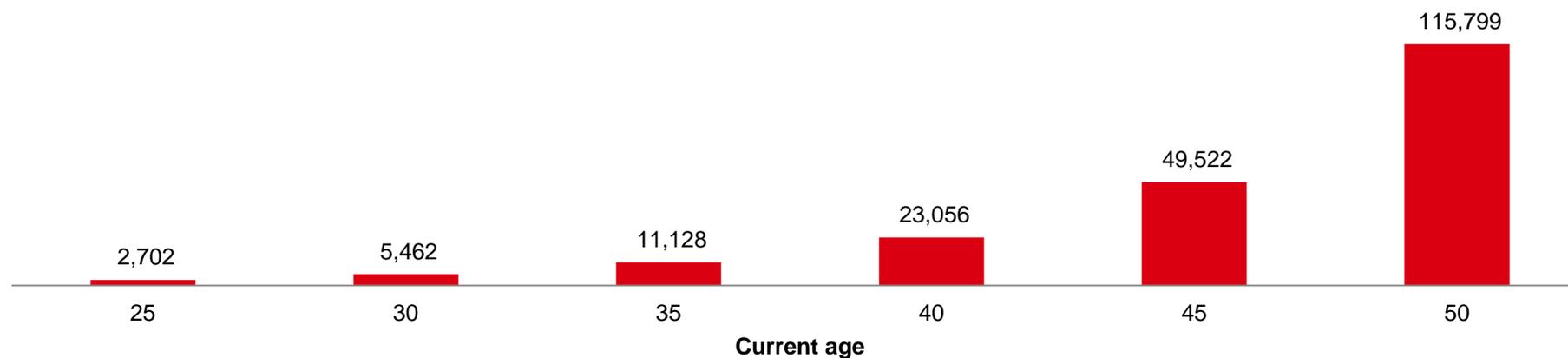
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Act now

- ◆ Those who invest a lump sum, one may need to check whether the market conditions are suitable. But for SIPs, anytime could be the right time
- ◆ If a particular amount is invested for the long term, the interest on the investment gets re-invested (compounding effect), thereby earning higher returns
- ◆ But deferment would require a higher investment amount to reach the same goal
- ◆ Illustration - A 25-year-old investor would require monthly investment of Rs 2,702 to build a retirement corpus of Rs 3 crore by the age of 60, at 14% CAGR. However, a delay of five years would require double the monthly investment to reach the goal

Cost of delay - Monthly amount required to build retirement kitty of Rs 3 crore nearly doubles due to a delay of 5 years

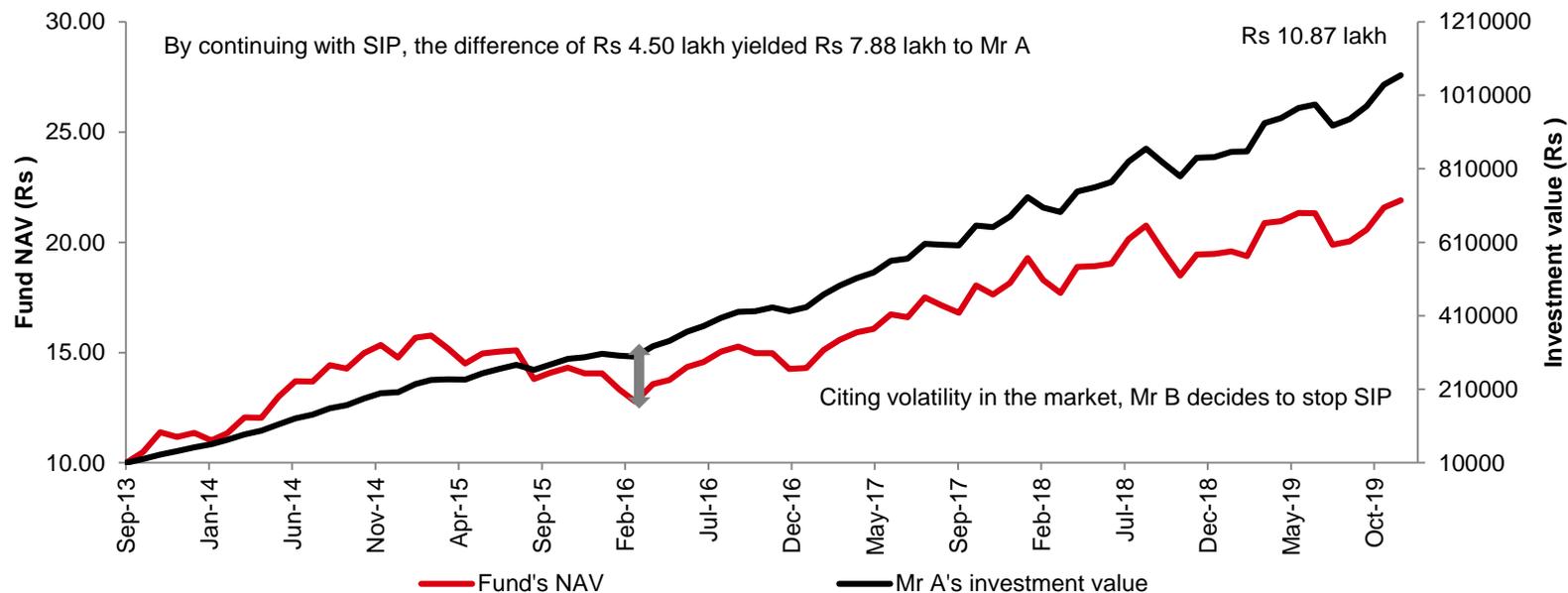


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Don't discontinue SIP

- ◆ Once you start investing in SIPs, don't consider hitting the stop button while the markets are falling
- ◆ The beauty of an SIP is that even market losses may result in gains. Wondering how?
- ◆ Illustration – Mr. A and Mr. B start monthly SIP of Rs 10,000 each in a equity fund* from September 2013. But when the tides were choppy between August 2015 and March 2016, Mr. B decided to stop his SIP, even as Mr. A continued
- ◆ Results – Subsequent rise in the market helped Mr. A garner Rs 5.39 lakh more from additional investments of Rs. 340,000 (Rs 10000 X 34 months) after Mr. B discontinued his SIP.



* S&P BSE Sensex is used as proxy for fund performance; Index rebased to 10. The above calculations are for illustration purposes only

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Rupee cost averaging

- ◆ SIPs offer the rupee-cost averaging edge to long-term investments as investors invest at different intervals thus capturing the ups and down of the market cycle
- ◆ For instance, with Rs 1,000 one can buy 50 units of Rs 20 each or 100 units of Rs 10 each depending on whether the market is up or down
 - More units are purchased when a scheme's NAV is lower and fewer units when the NAV is higher
 - Longer the time frame, greater the benefits of averaging

| Investment (a) | NAV (Rs.) (b) | No. of units (a)/(b) |
|-------------------|---------------|----------------------|
| Rs 1000 | 20.00 | 50 |
| Rs 1000 | 10.00 | 100 |
| Average cost/unit | 13.33 | |

As you can see, when NAV falls more you accumulate more units and vice versa, thereby averaging out the cost

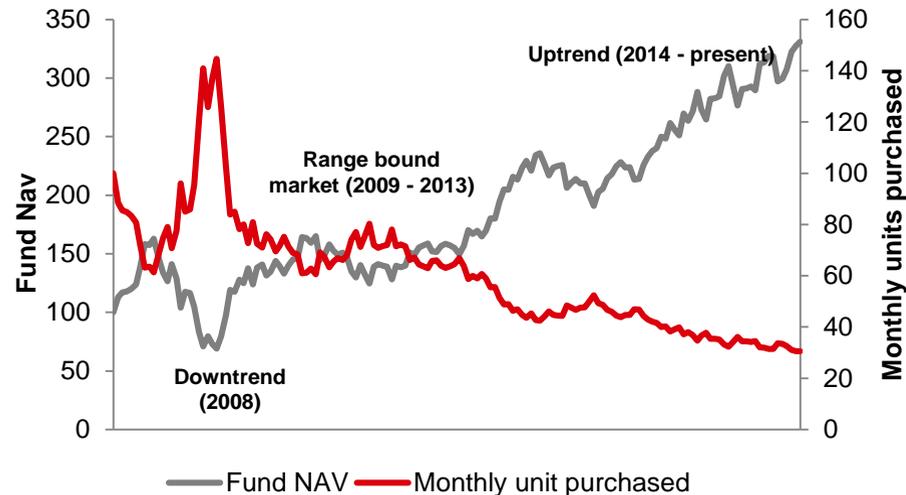
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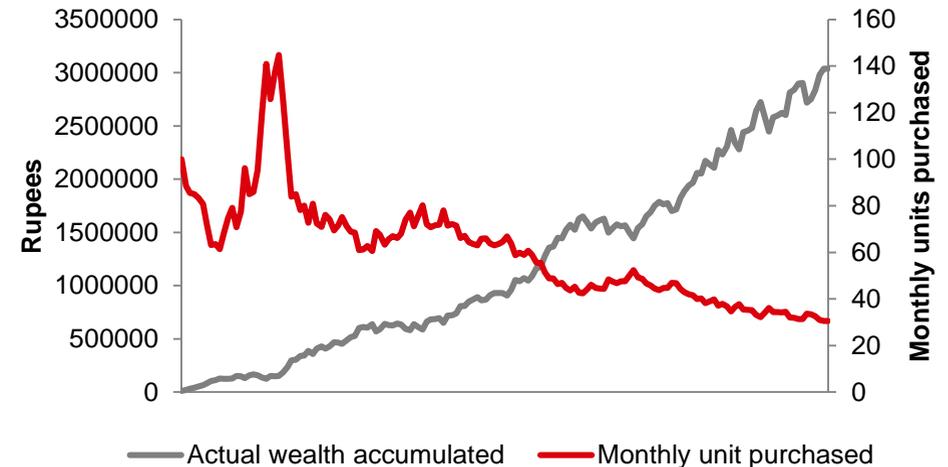
Rupee cost averaging

- ◆ To take a hypothetical example, an investor started a monthly SIP of Rs 10,000 at the peak (April 2007) of the bull phase of 2003-07
- ◆ Owing to the subprime crisis which followed later, the investor witnessed losses in January 2008 – March 2009, but was also able to accrue more units because of regular investments
- ◆ Once the market rebounded after the subprime crisis, Rs 15.40 lakh invested in the market rose to Rs 30 lakh at the end of December 2019
- ◆ Thus, despite starting the SIP at peak levels, the investor survived the downtrend and even managed to gain once the market rebounded

When the fund NAV falls in bear market, more units are purchased



Once the market rebounds, the investment value increases steeply



Source: CRISIL Research

Fund NAV represented by S&P BSE Sensex rebased to 100. The above calculations are for illustration purposes only.

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Overcome the devil within



Avoid lump sum investments when the magic of SIP is at your disposal



Never fall prey to market volatility and discontinue SIPs as staying invested is the key to generate optimum returns



Consider increasing the SIP amount during events such as SIP anniversary or salary increases



Always follow the three golden rules – Invest early, Invest regularly and Invest for the long-term

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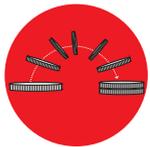
Augment SIP quantum as income appreciates

Incremental SIP, commonly referred to as SIP top-up, allows investors to increase their installments by a fixed amount at pre-determined intervals and, thus, leverage rising income

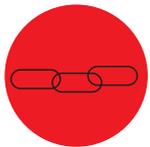
Benefits of SIP top-up:



Investors with initially low savings can use this facility to gradually invest more to achieve goals



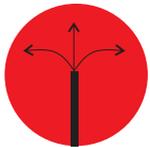
It works on auto pilot to increase savings in sync with income



Wealth grows faster due to the power of compounding



Helps avoid paper work associated with increasing SIP contribution during the tenure



Reduces the effort for creating and tracking multiple SIPs in the same scheme

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How SIP top-up bulges savings pool?

- ◆ Here is a hypothetical case which shows how investors can increase their portfolio value by increasing SIP investments (read top-up) in sync with their income
- ◆ In scenario A, investor does not increase investments despite the rise in income
- ◆ In scenario B, investor increases monthly investments by Rs 1,000 each year (Rs 12,000 p.a.)
- ◆ As seen in the table, in scenario A, investor will miss out on additional gains of Rs 1.5 lakh by not increasing investments in line with income

| Year | Scenario A | | | | Scenario B | | |
|-------------------|--------------------|------------------|------------------------------|-------------------------------------|------------------|------------------------------|-------------------------------------|
| | Annual income (Rs) | Monthly SIP (Rs) | Total yearly investment (Rs) | Value at the end of the period (Rs) | Monthly SIP (Rs) | Total yearly investment (Rs) | Value at the end of the period (Rs) |
| 1 | 10 lakh | 10000 | 1.20 lakh | 1.29 lakh | 10000 | 1.20 lakh | 1.29 lakh |
| 2 | 11 lakh | 10000 | 1.20 lakh | 2.76 lakh | 11000 | 1.32 lakh | 2.89 lakh |
| 3 | 12 lakh | 10000 | 1.20 lakh | 4.43 lakh | 12000 | 1.44 lakh | 4.84 lakh |
| 4 | 13 lakh | 10000 | 1.20 lakh | 6.34 lakh | 13000 | 1.56 lakh | 7.19 lakh |
| 5 | 14 lakh | 10000 | 1.20 lakh | 8.52 lakh | 14000 | 1.68 lakh | 10.00 lakh |
| Difference | | | | | | | 1.48 lakh |

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SIP with an eye on risk appetite

- ◆ The fundamental rule of investing is that investments should be done as per the investor's risk-return profile
- ◆ An equity SIP makes sense for an aggressive investor:...
 - Equity being volatile, an SIP helps investors iron out volatility with rupee cost averaging
 - Provides an opportunity to create wealth in the long term
- ◆ An SIP in a balanced fund (equity + debt) is appropriate for a moderate investor
 - Volatility in equity can be effectively offset by stability of debt as per asset allocation suitable to investor

| SIP Portfolio | | | | | |
|-------------------------------------|---------|--|------------|------------|-------|
| | | Scenario 1 | Scenario 2 | Scenario 3 | |
| | Debt | 20% | 35% | 80% | |
| | Equity | 80% | 65% | 20% | |
| SIP returns (annualised) | | | | | |
| | 3-year | 11.53% | 11.04% | 9.39% | |
| | 5-year | 10.91% | 10.51% | 9.09% | |
| | 7-year | 10.93% | 10.60% | 9.37% | |
| | 10-year | 10.43% | 10.19% | 9.18% | |
| Total amount invested (Rs in lakhs) | | Investment's market value (Rs in Lakh) | | | |
| | 3-year | 3.60 | 4.22 | 4.25 | 4.15 |
| | 5-year | 6.00 | 7.89 | 7.82 | 7.54 |
| | 7-year | 8.40 | 12.40 | 12.25 | 11.73 |
| | 10-year | 12.00 | 20.62 | 20.35 | 19.30 |

Source: CRISIL Research

Annualised returns and investments' market value as on December 31, 2019

SIP amount invested on first day of every month

Equity and Debt performances are represented by S&P BSE Sensex and CRISIL Composite Bond Fund Index respectively

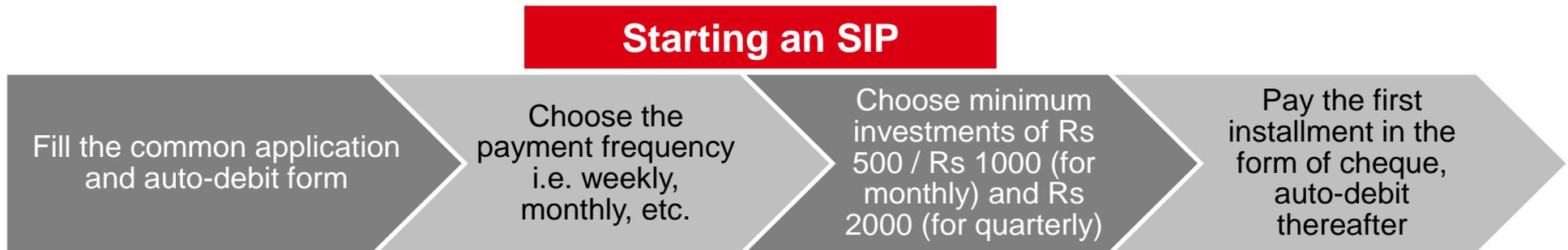
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Before initiating SIP....

- ◆ Gauge the investment horizon and risk-profile
- ◆ Conduct due diligence

After investing SIP....

- ◆ Keep track of your investments to ensure they are in sync with the financial plan



Start an SIP today and let your dreams fly!

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