

A young boy with curly hair, wearing a shiny silver space suit, stands in front of a dark chalkboard. He is holding a silver space helmet in his right hand and looking upwards with a hopeful expression. The chalkboard is covered with white chalk drawings of stars, planets, and orbital paths. The main text 'Harness the power of SIPs to achieve financial goals' is written in white across the upper part of the image.

Harness the power of SIPs to achieve financial goals



HSBC
Asset Management

January 2021

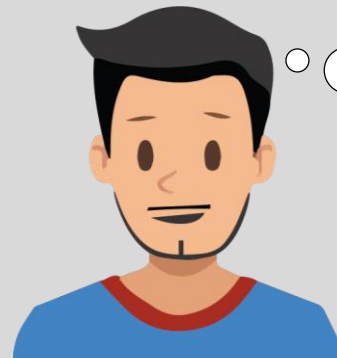
SIPs can help you cover your short- and long-term financial goals

Short-term goals

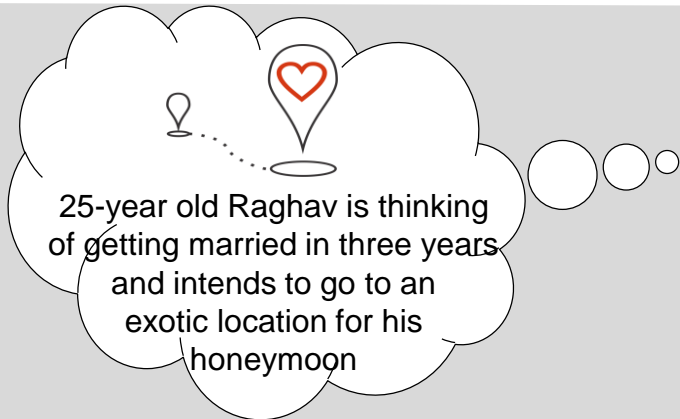


With a low monthly income of Rs 15,000, Uma is wondering how she can gift a vehicle to her father

Long-term goals



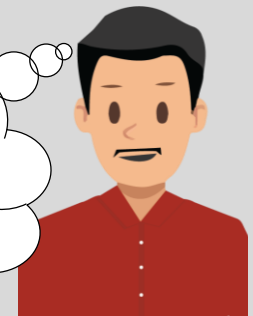
Mr Sharma wants to go on a world tour with his family after retirement



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



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 neither get disheartened nor lose focus from the goals. Instead, they should be disciplined and systematic. Investing through SIPs (systematic investment plans) can help achieve both short- and long-term financial 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



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



Raghav garnered nearly Rs 2.5 lakh 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



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 2020 and since July 1999 (Source: CRISIL Research).

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SIP in small amounts to achieve your large financial goals

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 3,000 could safely cover your child's education expense worth over Rs 18 lakh after 15 year



Child's wedding

Saving as low as Rs 5,000 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 6,000 monthly for 30 years of work life

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A simple tool for 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 a Systematic Investment Plan (SIP), can help you invest a fixed amount each month

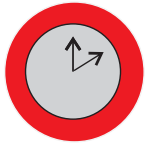


You can identify how much you need to save to achieve your future goals, which may be many in number and extend over the course of a lifetime

Benefits of SIPs



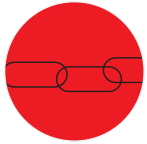
Reduce average price per unit paid through rupee-cost averaging



Make market timing irrelevant



Enhance investments as income grows



Provide compounding benefits

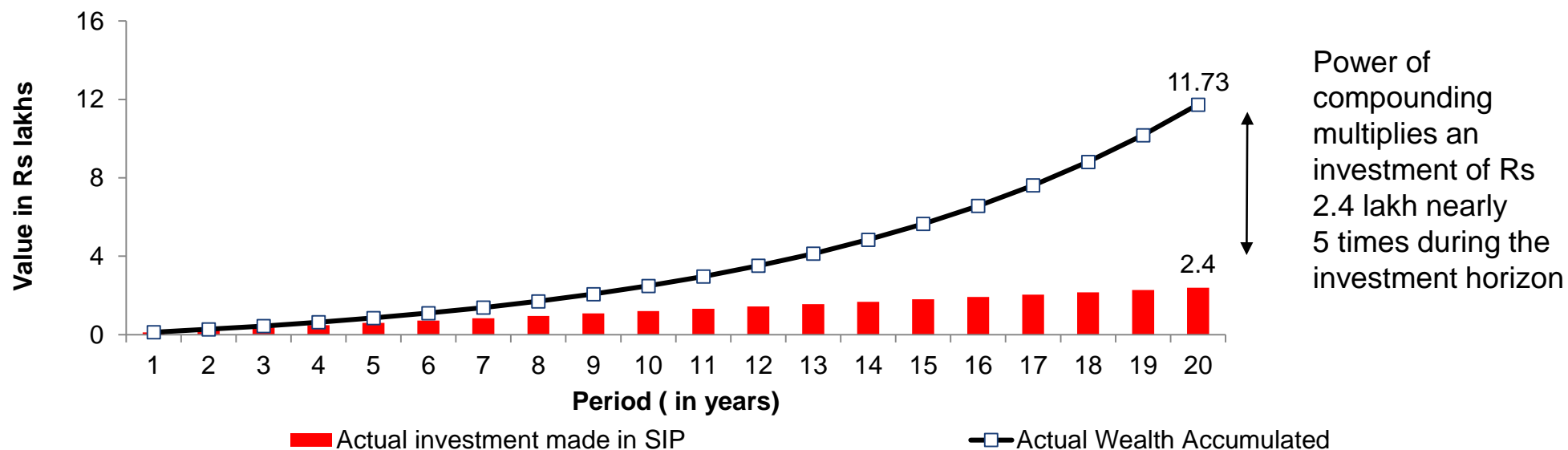


Instill investment discipline

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

- ◆ To reap the benefits, save via SIPs early
- ◆ The longer the investment period, the 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



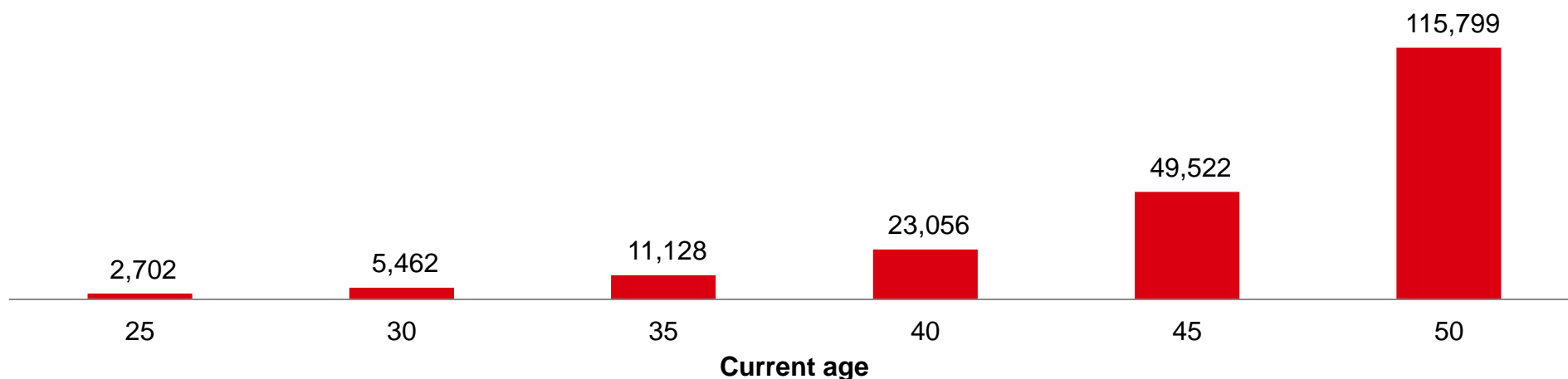
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Delay in action can cost you

- ◆ 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 a monthly investment of Rs 2,702 to build a retirement corpus of Rs 3 crore by the age of 60, at a 14% CAGR (compound annual growth rate). However, a delay of five years would require doubling 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

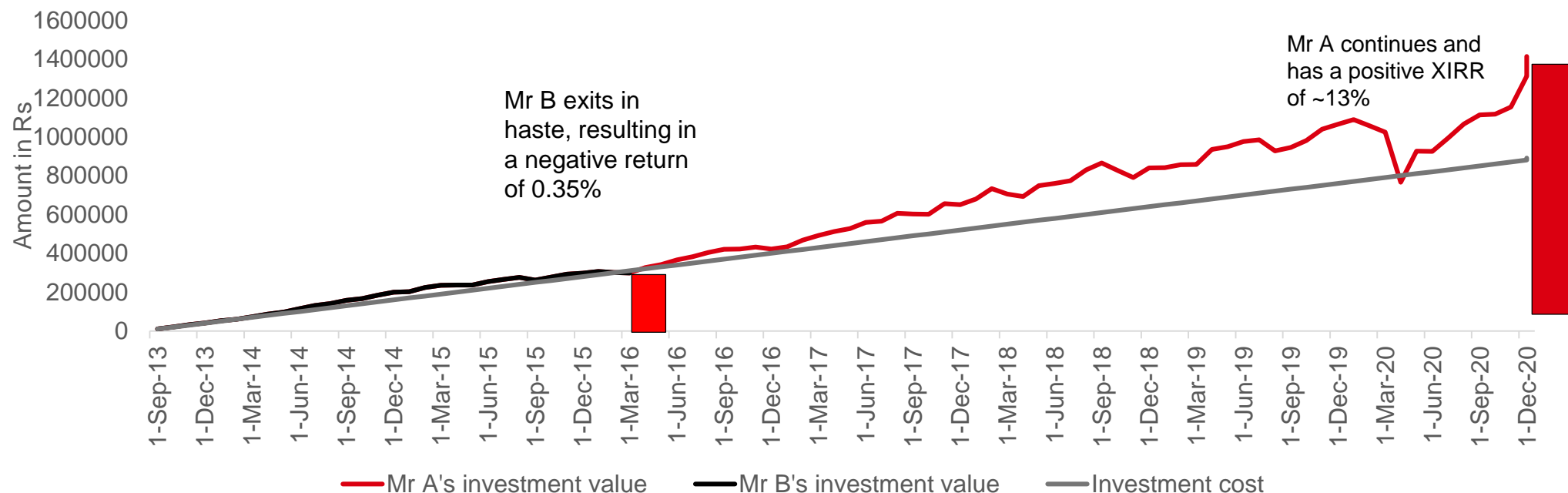


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Don't discontinue SIPs

- ◆ Once you start investing in SIPs, don't consider hitting the stop button whenever the markets fall
- ◆ Illustration – Mr A and Mr B start monthly SIPs of Rs 10,000 each in an equity fund* from September 2013. But when the tide turned choppy between August 2015 and March 2016, Mr B decided to stop his SIP, even as Mr A continued
- ◆ Result – A subsequent rise in the market helped Mr A garner Rs 11.15 lakh more from additional investments of Rs 580,000 (Rs 10,000 x 58 months) after Mr B discontinued his SIP.



* S&P BSE Sensex is used as a 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 edge of rupee-cost averaging to long-term investments, as investors buy 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
 - The longer the time frame, the greater the benefits are from averaging

Investment (a)	NAV (Rs.) (b)	No. of units (a)/(b)
Rs 1,000	20.00	50
Rs 1,000	10.00	100
Average cost/unit	13.33	

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

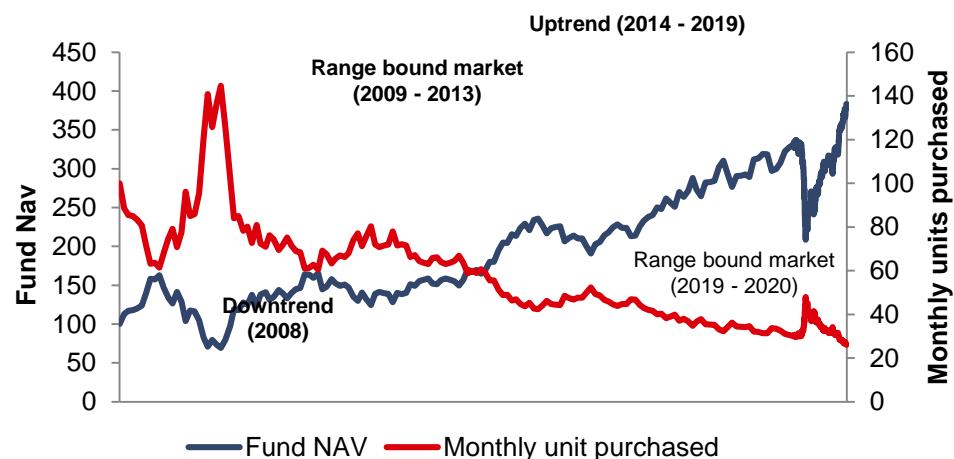
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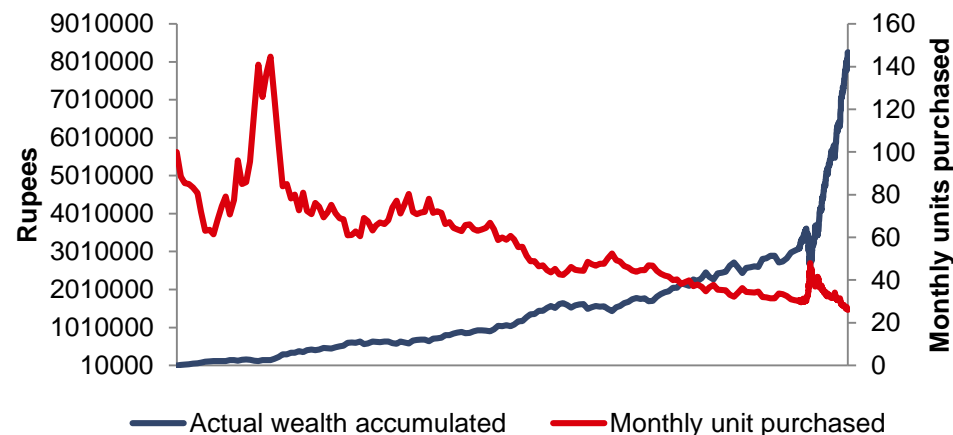
Rupee-cost averaging

- ◆ 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 during 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 26 lakh at the end of December 2020
- ◆ Thus, despite starting the SIP at peak levels, the investor survived the downtrend and even managed to gain during the volatile trend in 2020, due to the pandemic

When the fund NAV falls in a 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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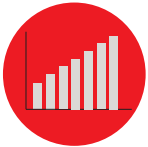
Overcome the devil within



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

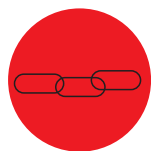
Benefits of SIP top-up:



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



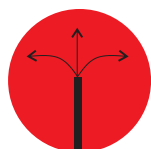
It works on auto-pilot to increase savings in sync with income



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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Case study – Benefit of SIP top-up (1/2)

- ◆ Rahul has two key financial goals:
 - Fund the higher studies of his two children, expected to cost Rs 10 lakh and Rs 20 lakh, respectively, after 7 and 12 years
 - Provide for his sunset years, for which he needs to save Rs 5 crore in over 20 years to ensure a good lifestyle for himself and his wife
- ◆ He has received his annual increment, which will increase his monthly income going forward
- ◆ The following table shows the monthly SIP value needed to meet his goals

Goal	Investment horizon	Goal value	Monthly SIP value~	Surplus available
 First child's higher studies	7 years	Rs 10 lakh	Rs 7,000	Yes
 Second child's higher studies	12 years	Rs 20 lakh	Rs 5,000	Yes
 Retirement	20 years	Rs 5 crore	Rs 33,000	No

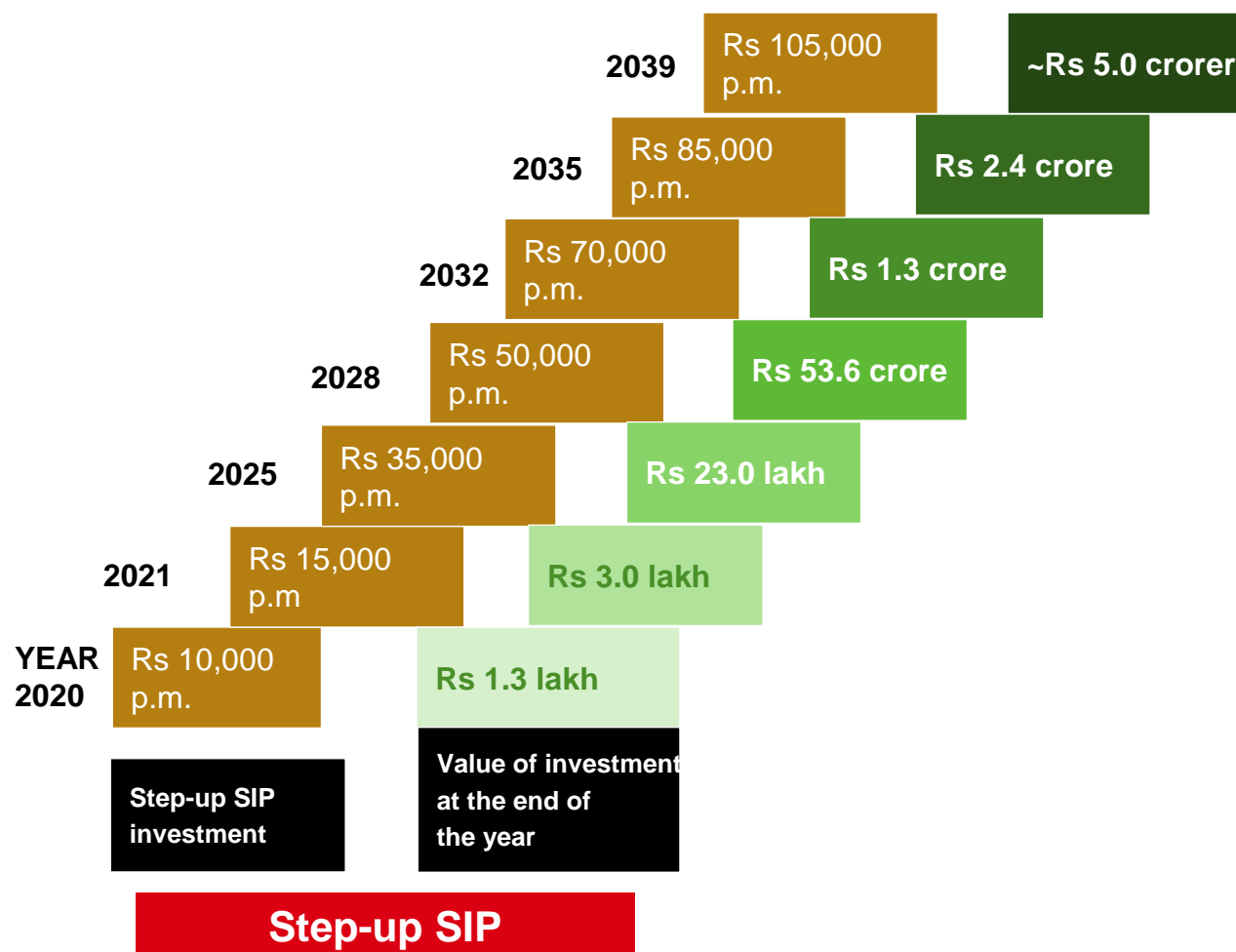
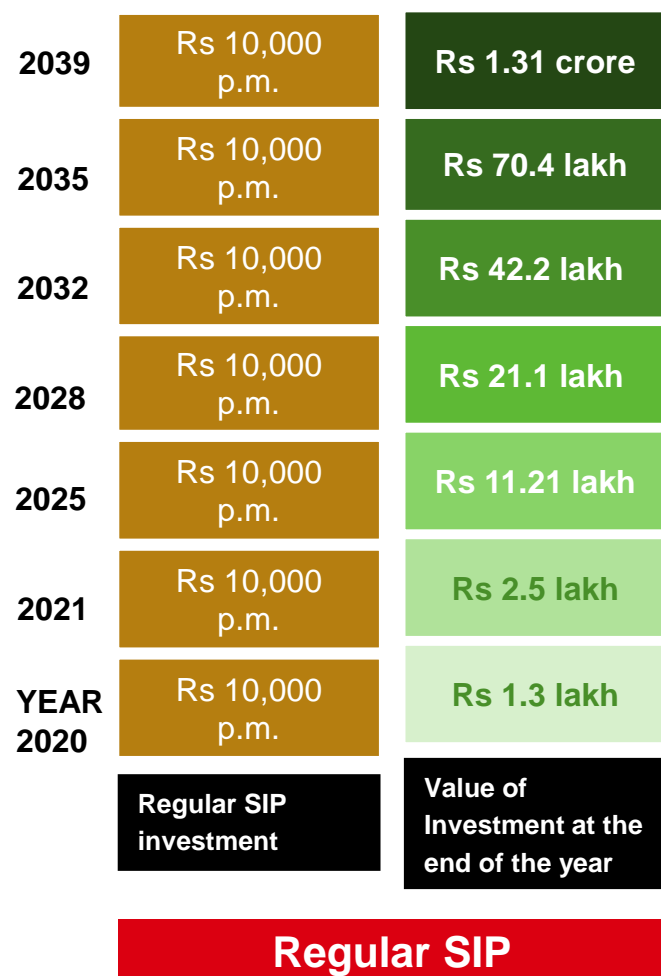
- ◆ While Rahul has the funds to invest in a monthly SIP for his children's education, he believes the increased income cannot support the additional SIP required for his retirement goal
- ◆ In such a scenario, a step-up SIP can be highly effective. Rahul can achieve his retirement goal by starting with a smaller monthly amount, in-line with his increased income of Rs 10,000, and grow it by Rs 5,000 on an annual basis

~ Approximation to the nearest thousand, calculation based on a SIP growth rate of 15%, which is historic performance of 15 year daily rolling average returns of the S&P BSE Sensex since 1979 till December 2020 (Source – CRISIL)

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Case study – Benefit of SIP top-up (2/2)

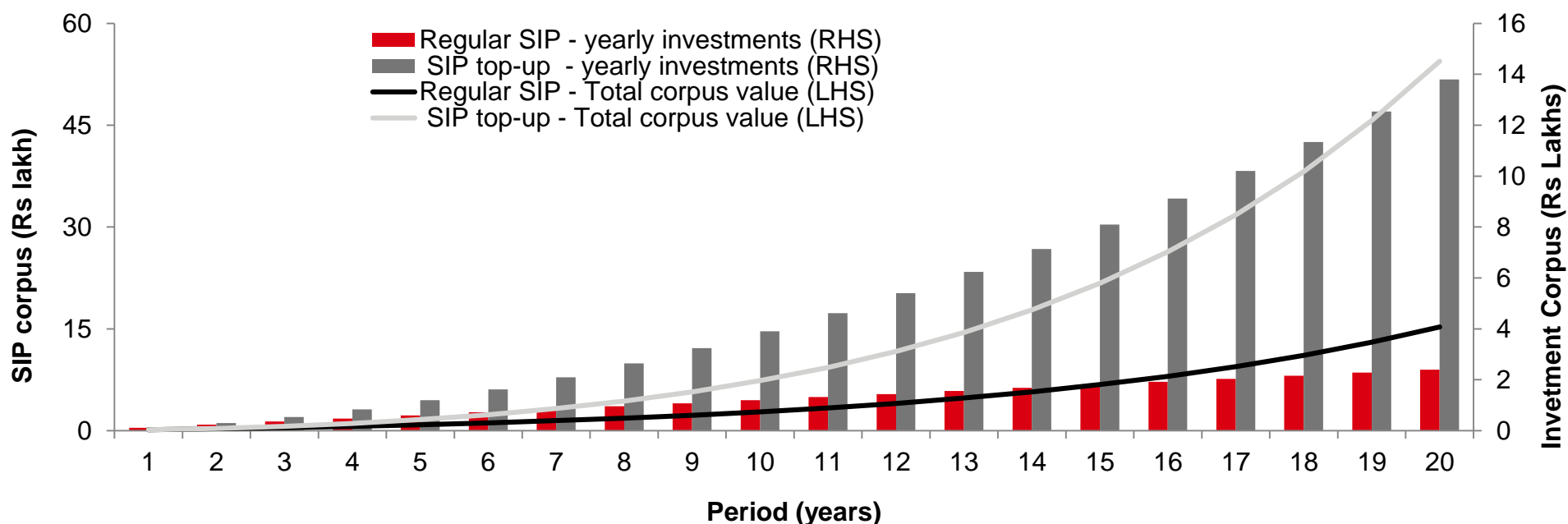
- ◆ Through a step-up SIP, Rahul will be able to achieve his retirement goal, as against when he maintains the regular SIP amount



Source – CRISIL, Calculation based on a SIP growth rate of 15%, which is the 15-year daily rolling average returns of the S&P BSE Sensex since 1979 till December 2020, ~ Approximation to the nearest thousand, For illustration purpose only. The above information is provided for illustration purpose only. Past performance may or may not sustain in the future and does not guarantee or assure future returns. Mutual fund investments are subject to market risks, read all scheme related documents carefully.

Step-up SIP can accentuate the benefits of compounding

- ◆ A step-up SIP grows wealth faster on account of the power of compounding, which builds further on additional investments over a period of time
- ◆ Let us look at this with the help of another hypothetical case study, of two sisters, Anjali and Priya
- ◆ Anjali started a regular SIP of Rs 1,000 p.m. for 20 years with an annualised growth rate of 15%, increasing her total investment of Rs 2.40 lakh to Rs15 lakh
- ◆ Priya stepped-up her regular SIP with only Rs 500 per month, and her investment of Rs 13.80 lakh grew to over Rs 54 lakh during the period



Source – CRISIL, Calculation based on a SIP growth rate of 15%, which is 15-year daily rolling average returns of the S&P BSE Sensex since 1979 till December 2020.

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Step-up SIP also helps tide over unfavourable market phases

- ◆ Systematic investments help investors ward off risks that arise from timing the market, and smoothen returns over the long term
- ◆ An analysis of investments done before the financial crisis of 2008 till date shows step-up SIP investments have been able to generate higher returns than lump sum and regular SIP
- ◆ A monthly regular SIP of Rs 1,000 totaling Rs 1.68 lakh would have grown to Rs 3.49 lakh. In case of a step-up SIP, an increment of just Rs 500 per year would see an investment of Rs 6.96 lakh grow to Rs 12.15 lakh during the period
- ◆ Thus, despite market volatility, an investor can benefit by investing systematically and also enhance wealth creation by topping investments at regular intervals

Period of investment	SIP*			Step-up SIP ^			Nifty 50 returns (CAGR)
	Investment	Investment value	Returns (XIRR)	Investment	Investment value	Returns (XIRR)	
Jan-08 to Dec-20	Rs 168,000	Rs 349,171	11.14%	Rs 696,000	Rs 1,215,515	11.70%	6.52%

• Considers Rs.1,000 of SIP investment in Nifty 50 index on the first day of every month from January 2008 to December 2020

• ^Starts with Rs.1,000 of investment and increased on an annual basis by Rs 500 per month

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Step-up SIP helps increase savings in tandem with income

- ◆ Annual rise in salary is the most welcomed and motivating factor in one's earning life
- ◆ However, many times the rise in income is not utilised in savings / investment, which can be detrimental to the wealth-building process
- ◆ The table below depicts how a step-up SIP helps investors build more investments compared with the regular SIP

	Regular SIP		Step-up SIP			
Year	Monthly SIP amount (Rs)	Total SIP value in the year (Rs)	Monthly SIP amount (Rs)	Top-up amount (Rs)	Monthly SIP amount including top-up (Rs)	Total SIP value in the year (Rs)
1	1,000	12,000	1,000	-	1,000	12,000
2	1,000	12,000	1,000	1,000	2,000	24,000
3	1,000	12,000	2,000	1,000	3,000	36,000
4	1,000	12,000	3,000	1,000	4,000	48,000
5	1,000	12,000	4,000	1,000	5,000	60,000
6	1,000	12,000	5,000	1,000	6,000	72,000
Total		72,000				252,000

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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...
 - With equities 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 the asset allocation suitable to an investor

SIP Portfolio				
		Scenario 1	Scenario 2	Scenario 3
	Debt	20%	35%	80%
	Equity	80%	65%	20%
SIP returns (annualised)				
	3-year	18.24%	17.49%	14.47%
	5-year	14.64%	14.00%	11.49%
	7-year	12.52%	12.18%	10.66%
	10-year	9.13%	8.85%	7.79%
Total amount invested (Rs, lakh)		Investment's market value (Rs, lakh)		
3-year	3.60	4.71	4.66	4.46
5-year	6.00	8.66	8.52	8.01
7-year	8.40	13.13	12.97	12.27
10-year	12.00	19.25	18.96	17.93

Source: CRISIL Research

Annualised returns and investments' market value as on December 31, 2020

SIP amount invested on the 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 a SIP...

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

After investing in a SIP...

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

Starting an SIP



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Start an SIP today and let your dreams fly!



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