SIP SAHI HAI
An Investor Education Initiative

HSBC Global Asset Management

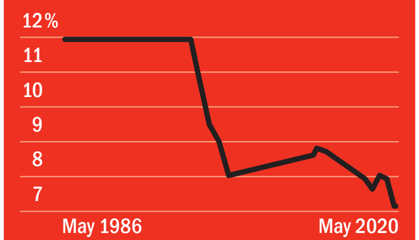
SIPs are still good for your retirement

Many investors have adopted equity SIPs as their retirement-planning tool, thanks to their ease and efficacy. All you need to do is pick a couple of good equity funds and set up monthly SIPs in them. This almost automates the wealth-building process. Of course, you need to monitor the performance of your funds from time to time. However, the recent crash in the market has rattled many investors who were diligently investing through SIPs. Due to the outbreak of COVID-19 and the uncertainty created by the ensuing lockdown, the Sensex plunged 22.7 per cent in March. Fortunately, it has recovered since and the current three- month loss stands at just over 10 per cent as of May 31, 2020. Still many long-term SIPs are in the red and investors are wondering if they are still a good tool for a crucial goal such as retirement.

It's important to put things in perspective. While it's true that abrupt declines in the market can hurt your long-term returns, you must not forget that those are also the times when your SIPs are most effective. Since SIPs work on the principle of rupee cost averaging, you actually tend to benefit from a fall as your SIP would buy more units of the funds you are investing in. When the markets eventually recover, these SIPs done at lower levels will boost your overall returns. Hence, when you begin to lose your faith in SIPs, that's probably the time when they are

The fall continues

PPF rates have been trending downwards over the last 35 years.

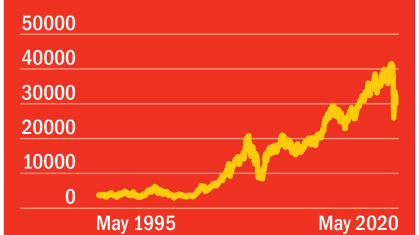


Source: nsiindia.gov.in, dea.gov.in

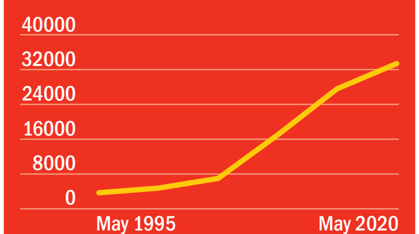
Short term vs long term

When the market is observed daily, it appears to be highly volatile. But over long periods, this volatility flattens.

Sensex: Observed daily



Sensex: Observed once every five years



Source: bseindia.com

going to be most rewarding.

It's also important to realise that most other debt-oriented options for retirement planning, such as the PPF, are also witnessing a decline in their interest rates. Consider the chart, titled 'The fall continues', on the historical returns from the PPF.

The fall in the interest rates of small-savings instruments is inevitable as the interest rates in the economy have been coming down. Thus, while it may appear that retirement instruments have given net positive returns, when adjusted against inflation, little remains.

It's also time to remind ourselves that equity is volatile by nature. Equity returns don't accumulate serially, as returns from debt instruments do. See the charts titled 'Short term vs long term'. They show that when the Sensex is observed daily, the returns fluctuate. But over long periods of time, the Sensex's ascent appears smooth. This is where SIPs help you. By making you invest periodically, they dampen this volatility in your overall returns. Your returns from lump-sum investments would highly depend on the time when you made the investment. This is not so with SIPs, provided you keep investing through thick and thin.

Finally, do remember that equity is the only asset class that gives inflation-beating returns over the long term. Hence, to retain the value of your investments, including those meant for your retirement, it's the best asset class, despite all its short-term fluctuations. To safeguard yourself from this volatility at a time when you need your retirement corpus, start shifting it to safer avenues two-three years before retirement. This will ensure that a sudden plunge in the market, like the recent one, doesn't spoil your golden years. ☑