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MUTUAL FUND AN INVESMENT AVENUE AND SIP A MODE OF INVESTMENT

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ABSTRACT

In today's competitive environment, various types of investment avenues are available to investors. An investor invests in various types of investment depending upon his requirements. Mutual fund industry has grown drastically over the years. Mutual funds pool the saving of the people and invest in stock, bonds and other securities. All mutual funds are registered with SEBI. Mutual funds help small investors by giving access to diversified securities and also by giving professionally managed investment schemes. Today, the investors can invest in mutual funds through SIP (Systematic Investment Plan) mode. SIP allows one to purchase units at regular intervals and allows the investor to gain the benefits in the long run. SIP enables one to inculcate the habit of savings and reap the benefits of investment. The earlier one starts investing the bigger will be the benefit.

Keywords: Mutual Funds, Systematic Investment Plan, Benefits of Systematic Investment Plan

INTRODUCTION

There are various investment options available with the investors. One can invest in:

1. Public Provident Fund, Employee Provident Fund

2. Shares

3. Fixed Deposits

4. ETF

5. Bonds

6. Recurring Deposits

7. Real Estate

8. Gold

9. Mutual Funds

In today's competitive environment, various types of investment avenues are available to investors. An investor invests in various types of investment depending upon his requirements. Mutual fund industry has grown drastically over the years. The start of Mutual Funds gave opportunity for investors in hope of high returns from their investments. An investor who doesn't want to take risk on his investment and who is not having a lump-sum amount should select a SIP (Systematic Investment Plan) option. This will ensure investment on a regular basis and ensure discipline.

The mutual fund industry in India has developed drastically. There are various schemes available to an investor on the basis of the risk he is willing to take, their goal and the investment term etc.

The following are the important types of mutual fund scheme:

A) BY MATURITY PERIOD

1. Open Ended Fund

2. Closed Ended Fund

B) BY INVESTMENT OBJECTIVE

1. Growth/Equity Fund

2. Debt/Income Fund

3. Balanced Fund

4. Money Market Schemes

5. Guilt Fund

C) OTHER SCHEMES

1. Tax Saving Schemes

D) SPECIAL SCHEMES

1. Sector Fund

A) BY MATURITY PERIOD

1. Open Ended Fund- It allows an investor to buy or sell in securities at any point of time.

2. Closed Ended Fund- It has a stipulated maturity period which is open for subscription only during a specified period.

B) BY INVESTMENT OBJECTIVE

Mutual Funds can also be classified based on investment objective.

1. Growth /Equity Fund- The aim of this fund is to provide capital appreciation in the long run. Such funds have high risk choose the option according to their choice.

2. Debt/Income Fund- These are ideal for investors who would like to take low risk and expect steady income.

3. Balanced Fund- The aim of this fund is to provide both growth and income. Investment is done in both equities and debentures.

4. Money Market Schemes- The funds are invested in money market instruments like treasury bills, commercial paper etc. The main aim of these funds is to provide easy liquidity, moderate income.

5. Gilt Fund- These funds are invested in government securities. Since guilt funds only invest in government securities, investors are protected from credit risk. They are appropriate for risk averse and conservative investors.

C) OTHER SCHEMES

1. Tax Saving Scheme- These funds provide tax benefits to the investors under Section 80C of the Income Tax Act of India. This is an equity diversified scheme and investors enjoy both capital appreciation as well as tax benefits. These are close ended schemes with a lock in period of three years.

D) SPECIAL SCHEMES

1. Sector Funds- Sector funds are those that invest only in the equity of those companies existing in a specific sector, as laid down in the funds offer document.

For example, a technology fund would invest only in technological companies.

OBJECTIVE

The Objective is to know the way one can invest through Systematic Investment Plan (SIP) and reap the benefits in the future.

SYSTEMATIC INVESTMENT PLAN

A Systematic Investment Plan or SIP is a mode of investing money in mutual funds. SIP allows one to invest a fixed amount at a regular interval. Investor can choose the amount he would like to invest in a scheme depending on his convenience through ECS (Electronic Clearing System), Post dated cheques. A SIP inculcates the habit of savings and to build wealth for the future.

HOW DOES IT WORK?

SIP works like a regular savings scheme like RD (Recurring Deposit). It allows the investor to buy units at regular intervals based on NAV (Net Asset Value) for the day. Investor gets the benefits from Rupee cost averaging and Power of Compounding. The investor decides the amount to invest and also the scheme. A SIP is an easy investment plan. It enables a common man to invest in mutual fund with an average income on a regular basis in place of making a onetime investment. Over the years, it will add to investment and give a handful returns to the investors.

The investment can be done in following markets:

Equity market in India consists of

1. Shares and

2. Equity related securities.

Debt Market in India consists of

1. Government of India securities,

2. Bonds,

3. Debentures,

4. Treasury Bills and

5. Commercial papers.

Again Money market in India consists of

1. Call and

2. Repurchase Agreement (REPO).

POWER OF COMPOUNDING

Compounding investment earnings can turn your small investments into a big sum after a period of time. The best way to take advantage of compounding is to start saving and investing wisely as early as possible.

This is an example of investment done by two persons Mr. A and Mr. B. Both of them invest Rs. 5,000 each at the end of every month in SIP. Mr. A starts early at the age of 20 and Mr. B start at the age of 25. Assuming that the money grows on an average rate of 15% per annum, Mr. A's corpus will be 35,049,103 and Mr. B will be 16,420,369 by the time they attain 50 years.

Name of the Parties	**Mr. A**	**Mr. B**
Age of Investment (Start)	20 years	25 years
Monthly Investment	5,000	5,000
No of years	30	25
Total Investment	18,00,000	15,00,000
Rate of Returns	15%	15%
Corpus	35,049,103	16,420,369

So while both Mr. A and Mr. B invested the same amount each month, the one who starts the early made a considerable gain compared to the one starting out late.

SIP is preferable for someone who wishes to build up capital over the long term and is not familiar with equity markets, investing regularly through a SIP in a mutual fund can benefit success to a great extent. A SIP helps to fight volatility and benefit from the power of compounding.

NET ASSET VALUE (NAV)

NAV = (Value of Assets-Value of Liabilities)/number of units outstanding

Investing in SIPs is also known as Rupee cost averaging. The advantage of rupee cost averaging is that the Net asset value (NAV) is averaged out, as the investor will be entering the fund at different NAVs, which may be higher or lower depending on the market condition.

NAV of a fund reflects the price change in the investment owned by the fund. As the stock prices change frequently, the NAV of a fund is calculated at the end of each day. It helps investors to know the value of shares in a fund where they have invested.

If the following investment is done through SIP then the benefit can reaped in the future. It will work best if the following steps are done:

1. One need to Start Early

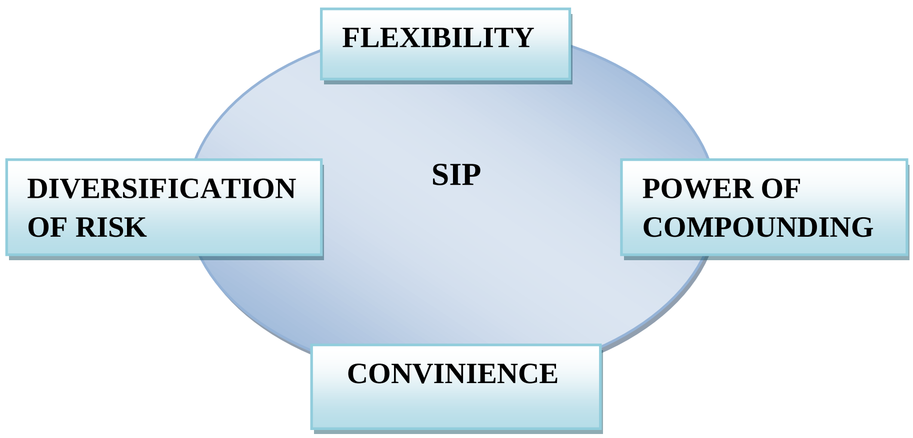
2. Invest on regular basis

3. Duration should be long term

4. Invest in the right scheme

BENEFITS OF SYSTEMATIC INVESTMENT PLAN

SIP helps the small investors to invest their small amount and take the benefits of diversified risk, flexibility, and ease etc, mode of investment. The following are the benefits of investment though SIP.



1. Habit of Savings – Systematic Investment Plan commits to save regularly. It enables to reap the benefits in the long run. Discipline is the key to successful investments and helps to achieve financial objective.

2. Diversification of Risk- Diversification of investment will reduce the risk. In SIP, the investment done is invested in various companies, in line with the objectives of the scheme. This reduces the risk as all stock doesn't decline at the same time. One cannot take this benefit if he does it by himself with less investment.

3. Convenience - SIP is a convenient way of investment. One can give a standing instruction to the bank and the amount gets debited from the bank account on that particular date.

4. Professional Management- The funds are managed by experts who have adequate experience in the field of investment. The investors are assured of quality service in their best interest. The professionals after careful analyses of the performance of companies help to achieve the objectives.

5. Rupee Cost Averaging- This is one the advantage of investing through SIP. Through SIP one can buy more units when the market is down and when the market goes up, the value of the investment goes up. Rupee cost averaging helps to overcome market ups and downs in the long run, allowing the investor to gain maximum benefits in the long run.

6. Power of compounding- The best way to take advantage of compounding is to start saving and investing wisely. One needs to start early for being a successful investor. Compounding allows one to earn interest on the principal. Compounding also happens when one reinvests their dividends or interest and receiving additional units. By doing such a thing, one can earn returns on the returns and on the principal. It means the investment will grow at an increased rate as the principal is combined with the re-invested income. One of the basic rules of being a successful investor is to start early. The one who starts out early can earn much higher returns than a one starting out late even with a slightly higher corpus. SIP allows an investor to invest a small amount each month according to his convenience and there by encourage him to start investing at an early age.

7. Need not to time the market- An investor can invest at regular intervals irrespective of market cycle.

8. Long-Term benefits – SIP have the potential to give attractive returns to an investor over a long run due to rupee cost averaging and power of compounding.

9. Start with a small amount-One can start investing in mutual fund with small amount of Rs. 500 to get good returns over a long run.

10. Tax advantage- Investment done through SIP gives an advantage of tax benefits in respect of tax saving schemes.

DISADVANTAGES OF SIP

In spite of the advantages, there are few drawback of investing in mutual funds through SIP.

1. Market Risk- Investment in mutual funds are subject to market risks and don't ensure profits in falling markets.

CONCLUSION

One can say that Systematic Investment plan is an investment plan through which one can invest a specified amount every month on an assigned date. SIP brings in the advantage of Rupee Cost Averaging and Power of Compounding. It inculcates the habit of savings and helps one to invest at regular interval irrespective of market cycle. SIP protects investors from volatility and get benefits in the long run. It is best option for small investors who would like to invest small amounts regularly to build wealth over a long run. Investing through SIP is beneficial for those investors who don't want to take risk on his investment. Investing through SIP ensure investing discipline. SIP has its own advantages and disadvantages. If an investor takes a wise decision, he can definitely reap the benefit of investing through SIP to create wealth over a long term. One can become a disciplined investor and get the benefits of Power of Compounding and Rupee Cost Averaging.

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