

# Systematic Investment Plan

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## What is Systematic Investment Plan?

- A systematic investment plan (SIP) is an investment vehicle offered by many mutual funds to investors, allowing them to invest small amounts periodically instead of lump sums
- Systematic investment plans (SIPs) are considered the most convenient and efficient way to invest in the equity markets
- A SIP allows an investor to invest regularly. One puts in a small amount every month that is invested in a mutual fund. A SIP allows one to take part in the stock market without trying to second-guess its movements
- SIP allows you to invest a predetermined amount at a regular interval (weekly, monthly, quarterly, etc.).
- A SIP is a planned approach towards investments and helps you inculcate the habit of saving and building wealth for the future.
- In India, a recurring payment can be set for SIP using Electronic Clearing Services (ECS). Some mutual funds allow tax benefits under equity-linked savings schemes

## How does it work?

- A SIP is a flexible and easy investment plan. A person's money is auto-debited from your bank account and invested into a specific mutual fund scheme. One person is allocated a certain number of units based on the ongoing market rate (called NAV or net asset value) for the day.
- Every time a person invests money, additional units of the scheme are purchased at the market rate and added to his/her account.
- Hence, units are bought at different rates and investors

benefit from Rupee-Cost Averaging and the Power of Compounding.

## **Benefits of SIP**

- **Disciplined Saving:** Discipline is the key to successful investments. When you invest through SIP, you commit yourself to save regularly. Every investment is a step towards attaining your financial objectives.
- **Flexibility:** While it is advisable to continue SIP investments with a long-term perspective, there is no compulsion. Investors can discontinue the plan at any time. One can also increase/ decrease the amount being invested.
- **Long-Term Gains:** Due to rupee-cost averaging and the power of compounding SIPs have the potential to deliver attractive returns over a long investment horizon.
- **Convenience:** SIP is a hassle-free mode of investment. You can issue a standing instruction to your bank to facilitate auto-debits from your bank account.
- SIPs have proved to be an ideal mode of investment for retail investors who do not have the resources to pursue active investments.