AXIS MUTUAL FUND

Systematic Investment Plans (SIPs)

A disciplined approach to wealth creation

All market-linked investments go through ups and downs with equities exhibiting more volatility than debt. A disciplined, far-sighted approach is critical to create wealth from equities over the long run. Systematic Investment Plan (SIP) offered by equity mutual funds is an apt avenue to create long term wealth. SIPs offer a simple and disciplined way to generate higher risk adjusted returns and meet the desired goals. The concept is similar to recurring bank deposits wherein investors contribute a fixed sum of money at regular intervals.

How do SIPs help?

They make market timing irrelevant

SIP's biggest advantage is that it negates the need to time the market. In timing the market, one can miss the larger rally; one may stay out in a bull run or may enter in a bear phase as one can never accurately predict how the market may behave in the future. Investing at regular intervals ensures that one is invested both at the high and the low points of the market, and make the best of an opportunity that is otherwise difficult to predict.

Rupee cost averaging

SIPs make the market volatility work in favour of an investor and help in averaging out the cost – the concept is commonly referred to as "rupee cost averaging". For example, with Rs 1,000 one can buy 50 units at Rs 20 per unit or 100 units at Rs 10 per unit depending upon whether the market is up or down. Thus, more units are purchased when a scheme's NAV is low and fewer units when the NAV is high. Hence, when the two cases are taken together, the cost is averaged out. The longer the time frame, the larger are the benefits of averaging.

<u>Table 2 - Rupee cost averaging</u>

SIP Investment				One time Investment			
Date	Investment amount	NAV	Units Purchased	Date	Investment amount	NAV	Units Purchased
Jan-11	1000	298.50	3.35	Jan-11	12000	298.50	40.20
Feb-11	1000	269.28	3.71				
Mar-11	1000	268.96	3.72				
Apr-11	1000	282.66	3.54				
May-11	1000	286.33	3.49				
Jun-11	1000	280.64	3.56				
Jul-11	1000	281.05	3.56				
Aug-11	1000	277.63	3.60				
Sep-11	1000	248.36	4.03				
Oct-11	1000	245.41	4.07				
Nov-11	1000	253.73	3.94				
Dec-11	1000	235.85	4.24				
Total	12000		44.82	Total	12000		40.20
Average price per unit	267.75			Average price per unit	298.50		

*Data of CRISIL Consistent Fund Rank 2 for calculation

Induces disciplined investing

Lack of disciplined investing is one of the major reasons for investors not achieving their financial goals. SIPs ensure that investors continue to invest in a disciplined manner and stay on course to achieve their financial goals.

Lighter on the wallet

An often-heard excuse for not investing is lack of funds. SIPs take care of this problem by lowering the minimum investment amount. SIPs are generally available for a small amount, viz. Rs 500 per month; some mutual funds also provide it for as less as Rs 100 per month.

A peripheral benefit is that SIPs are also an easy and low cost means of compounding returns (referred to as power of compounding) through regular investments.

Illustration

Table 1 illustrates the benefits of SIPs over the long term. If an investor had invested Rs 1,000 every month through a SIP in a CRISIL Consistent Fund Rank 2 Equity Scheme over the past 10 years ended September 30, 2013, the principal investment of Rs 1.2 lakhs would have grown at around 14% per annum to nearly Rs 2.5 lakhs. In comparison, the market benchmark (CNX 500) Equity Index gave annualised 9% returns during this period on a point to point basis.

Table 1- Benefits of long term investing via SIPs

SIP of Rs 1,000 per month in a CRISIL Consistent Fund Rank 2 Equity Scheme			
Period	**Total Amount Invested**	**Value as on 30 Sep, 2013**	**Annualised SIP Returns (%)**
10-Years	Rs.1,20,000	Rs. 2,45,839	13.74

Extending this analysis over a 15- and 25-year period on a hypothetical basis (assuming the same annualised returns of 13.74%) would result in a terminal value of over Rs 8.4 lakhs (principal of Rs 1.80 lakhs) and Rs 80.9 lakhs (principal of Rs 3 lakhs) over these periods respectively.

Illustration above is mere assumption. Returns quoted above are for explaining the concept. **Past performance may or may not be sustained in the future.**

Continuing SIP investments in a bear phase delivers superior results

A big mistake that investors make is exiting SIP investments when markets start falling; this exit can impact portfolio returns significantly. Let’s assume investor A discontinued his SIP in December 2008 (during the credit cum liquidity crisis), while investor B continued with his SIP. If you compare the returns, B has continued to generate almost similar returns as A did till he exited. This is despite the volatility seen by the equity markets in the latest five year period. Further, A has also benefited from the power of compounding in the longer term period as a difference of Rs 57,000 has yielded nearly Rs 3 lakhs post December 30, 2008 mainly on account of power of compounding and higher market returns during the upturn.

Table 2 – Continuing SIP investment across market cycles

SIP of Rs 1,000 per month in a CRISIL Consistent Fund Rank 1 Equity Scheme from January 1, 2002			
	Amount Invested Rs	**Redemption Amount Rs**	**Annualised Returns (%)**
If SIP is discontinued after 7 years on December 30, 2008 (Mr A)	84,000	1,82,687	21.80
If SIP is continued till September 30, 2013 (Mr B)	1,41,000	4,80,669	19.44
Difference	57,000	2,97,982	

Illustration above is mere assumption. Returns quoted above are for explaining the concept. **Past performance may or may not be sustained in the future.**

In a nutshell, SIP is a good medium for retail investors to create wealth via equity mutual funds in a disciplined manner, and without taxing the pocket.

Statutory Details: Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to Rs. 1 Lakh). **Trustee:** Axis Mutual Fund Trustee Ltd. **Investment Manager:** Axis Asset Management Co. Ltd. (the AMC). **Risk Factors:** Axis Bank is not liable or responsible for any loss or shortfall resulting from the operation of the scheme. **Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.**