A

PROJECT REPORT

ON

"Systematic Investment Plan"

A detailed study done in

"Analyzing the Mutual Fund & Equity Schemes with SIP"

Submitted in partial fulfillment of the requirement for the award of Post-graduation diploma in Finance Management

Submitted by

MAHESHWARI M LONERKAR

DPGD / JL10 / 0361

Under the guidance of

Prin. L.N. Welingkar Institute of Management Development & Research

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Acknowledgement

With Immense pleasure I would like to present this report on “Systematic Investment Plan”

I would like to thank Welingkar Institute of Management for providing me the opportunity to present this Project

My special thanks to the Mr. Mukund P. Kulkarni for their invaluable guidance, cooperation and for taking time out his busy schedule to help me

Acknowledgments to my friends and all those who have helped me in this project

Maheshwari M Lonerkar

Declaration

I hereby declare that this Project report entitled "Systematic Investment Plan" Submitted in partial fulfillment of the requirement of *Post-graduation diploma of* Welingkar Institute of Management Development & Research is based on primary & secondary data found by me in various departments, books, magazines, and websites & Collected by me in under guidance of Mr. Mukund P. Kulkarni .

Date: MAHESHWARI M LONERKAR

DPGD / JL10 / 0361

<u>Certificate from the Guide</u>

This is to certify that the Project work Titled "Systematic Investment Plan (Equity)" is a Bonafide work carried out by Maheshwari M Lonerkar (DPGD/JL10/0361) a candidate for the Post Graduate Diploma examination of the Welingkar Institute of Management under my guidance & directions.

<u>Name of the Project Guide</u>

Mr. Mukund P. Kulkarni

Signature of Guide

Date:

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Systematic Investment Plans

---A rupee a day, keeps worries away

Introduction

A Systematic Investment Plan (SIP) is good tool that retail investors can utilize to optimize their investment strategy. SIP is nothing but a simple method of investing a fixed sum of money in a specific investment scheme, on a regular basis, for a predetermined period of time. A recurring deposit with the post office or a recurring deposit with a bank is also a SIP. SIP Systematic Investment Plan was already famous and proven in Mutual Fund context but now SIP has also come directly into Equity Stocks which is essentially Individual Stocks. Equity SIP is a new facility through which you can buy a script for a regular interval over a period of time for specified amount or for a specified quantity. Investing in mutual funds is not everybody's cup of tea. Being dependent on factors such as a fluctuating stock market and risking your hard-earned money for a measly profit does not really help. If you are a disciplined investor however, and are interested in mutual funds, then the Equity Systematic Investment Plan (SIP) would work well for you.

SIP requires you to invest a particular amount in a specific mutual fund scheme. In comparison, it functions much like a recurring deposit. You can plan a savings scheme for yourself and commit a particular sum of money each month on a pre-fixed date to the scheme. You can begin with as low as Rs 500 in ELSS (Equity Linked Saving Schemes) scheme and move on to Rs 1000 a month for other diversified schemes.SIP follows a simple mantra – buy when high and sell when low. This is a simple way to win in the stock markets.

However, the market needs to be timed well and this will take some time to figure out for the novice or busy player. That's where SIP with its monthly pay scheme comes into the picture. Putting in a sum of money each month will ensure that you have something in when the market is high, and when it is low securing your position in an unstable market.

Geojit BNP Paribas recently launched SIP for stock investment where in investors with a regular monthly income can invest their monthly savings in stocks of their choice or a basket of stocks. The service is system driven and once the process is initiated, the investor can enjoy the convenience of investing regularly into the selected stock(s) in a seamless manner. Geojit BNP Paribas provides this service on the internet, which makes it easy for investors to plan their savings and investments at regular intervals.

The discipline associated with investing strictly on a regular basis works much better that setting aside lump sums each month. Since you begin at a relatively younger age, the benefits of compounding are all yours. The convenience involved too is good, since you have to submit a request for purchase of shares only once. SIPs work for investors in the slightly long run and are useful to those who work on fixed budgets for the month, since the pre-planning helps. SIP is very useful for a time horizon of 10-15 years. An investor should carefully fix the amount to be invested so that it does not impact his cash flows over this time horizon. SIP imparts discipline to savings. On giving a post dated cheques or ECS instruction to any fund saving and investing happens automatically.

SYSTEMATIC INVESTMENT PLAN

A Systematic Investment Plan (SIP) is a vehicle offered by mutual funds to help investors save regularly. It is just like a recurring deposit with the post office or bank where you put in a small amount every month. The difference here is that the amount is invested in a mutual fund.

SIP mainly helps us to get addicted to an investment principle – Income

– Savings = Expenditure, instead of following the principle of –

Income - Expenditure = Savings.

SIP can be used in any type of mutual fund, equity or fixed income. This strategy is best used in an equity fund where an investor can capture the volatility in the equity markets to reduce the cost of investment. The NAV of any fund is determined by the market price of the stocks the fund has invested in. When an investor invests a fixed sum every month or quarter he gets more units of the fund when the markets are down and NAV is low than when the markets are up and the NAV is high. By investing across time horizons and market cycles, investors stand a better chance of lowering their investment cost.

SIP also helps investors to overcome the problem of 'when' to invest in the equity markets as irrespective of the state of the market an investor is always invested. SIP takes away the decision-making and converts it into a mechanized one. The lowering of risk, by entering at different time periods, however has the disadvantage of "averaging" out returns.

A very important aspect to be kept in mind is the entry and exit load charged by all mutual funds. In a normal investment most funds either charge entry load or exit load. But in a SIP along with an entry load charged for each installment, an exit load is charged if the program is withdrawn before a specified period. This period could vary from six months to two years. This double whammy will reduce the returns in the short term. This makes SIP an inflexible investment program and expensive if withdrawn prematurely due to unforeseen emergencies.

Finally, when considering a SIP, investors should note that it does not assure a return and continue investing without interruption as missing a few installments could lead to termination of the SIP. Since the time equity markets have been engulfed by volatility, the most frequently heard advice is that best way to invest in equities is “invest via the systematic investment plan route for long-term.” When an investor chooses to invest in mutual funds via an SIP, he makes investments (usually) in smaller denominations at regular intervals of time rather than making a single lump sum investment. By doing so investor benefits from the investing principle known as Rupee Cost Averaging. It is just like a recurring deposit with the post office or bank where you put in a small amount every month. The difference here is that the amount is invested in a mutual fund.

SIP allows you to invest a fixed amount regularly, so when funds NAV is more you get less units and when funds NAV is higher you get less units, so over a longer time frame, SIP will lower the average purchase cost of an investment.

Another Benefit of investing in equity via SIP is you benefit from “Power of Compounding”

As an investor, when you extend the investment period, you can earn profit on your current profit, and accumulate more wealth. This reiterates the fact that investing fresh capital at periodic intervals raises the accumulated investment.