

# UNDERSTANDING THE CONCEPT OF SIPS: WHEN TO START, STEP UP, PAUSE, AND STOP!

A Systematic Investment Plan (SIP) offers a structured approach for investors to invest in a range of mutual fund products, including Large Cap, Mid Cap, Large & Mid Cap, Small Cap, Hybrid Mutual Funds, Multi-Asset Funds, Flexi Cap, Quality Equity fund, and Multi-Cap Funds, daily, weekly, fortnightly, monthly and quarterly on a specified date in a disciplined manner. It is an investment strategy in which an investor must invest the same amount of money in a particular mutual fund on a specific date. The monthly SIP date may be fixed, such as the 5th, 10th, 25th, or any date before the 29th of every month.

SIP is a disciplined investment approach that enables regular investments at predetermined intervals, helping investors achieve their long-term financial goals. You will choose the date of the SIP in your application, along with the time frame, such as one year, five years, etc. As per your undertaking in the SIP application form submitted to your bank through offline bank mandates, deductions are made automatically from your bank account on a specified date, and the units purchased on that date are credited to your mutual fund account regularly. SIP helps manage risk and benefit from market cycles patiently.

Based on your investment period, you will buy more units in the downtrend market, where the NAV is low, and fewer units in the uptrend market, where the NAV is high. SIP helps reduce the average cost per unit of investment through a method called rupee cost averaging. An investor will get a weighted average return over a SIP period. SIP also generates consistent returns over the period due to the magic power of compounding.

percentage decreased from 36% to 24%, while the growth percentage increased from 64% to 76%.

The above analysis of SIP and power of compounding suggests that an investment's wealth growth can be divided into three phases: the first 10 years show steady growth, the next 5 years see accelerated growth as the initial investment doubles, and the another 5 years of investment

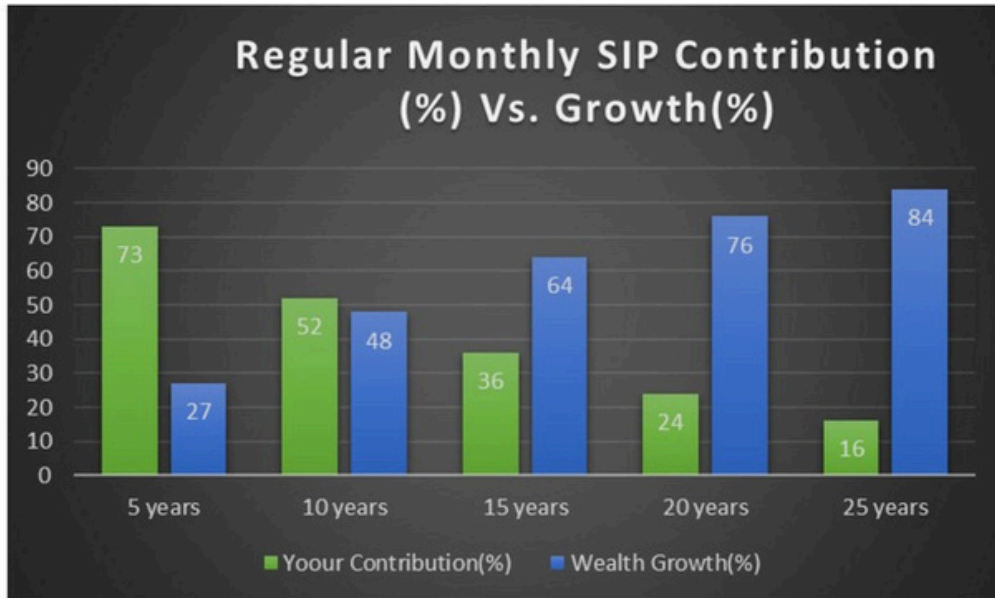
## Table 1

Investment Period	Investment Amount	Estimated Returns	Total Portfolio Value	Your Contribution(%)	Wealth Growth(%)
5 years	₹ 9,00,000.00	₹ 3,37,295.00	₹ 12,37,295.00	73	27
10 years	₹ 18,00,000.00	₹ 16,85,086.00	₹ 34,85,086.00	52	48
15 years	₹ 27,00,000.00	₹ 48,68,640.00	₹ 75,68,640.00	36	64
20 years	₹ 36,00,000.00	₹ 1,13,87,218.00	₹ 1,49,87,218.00	24	76
25 years	₹ 45,00,000.00	₹ 2,39,64,526.00	₹ 2,84,64,526.00	16	84

SIP Investment & Power of Compounding

For instance, if an investor commits (for a total of 20 years) result in to a monthly SIP of ₹ 15,000 over a exponential growth, where the period of 15 years, he will pay the corpus doubles again. Stay total amount of ₹ 27 lakhs. With an invested for the long term, assumed annual rate of return of demonstrating growth discipline 12%, this investment could grow to and patience, and allowing ₹48.68 lakhs, resulting in a total compounding to occur multiple value of approximately ₹75.68 times through your consistent lakhs. It indicates that the investment. You can observe that contribution accounts for 36% of the in the 25th year, the contribution of total portfolio value(₹ 75.68 lakhs), the portfolio is only 16%, whereas while the growth rate is 64%. the growth percentage is 84%. According to Table 1, as the investment period increased from 15 years to 20 years, the contribution





Starting your Systematic Investment Plan (SIP) early can yield substantial returns on your investment. Suppose you're considering starting your investment journey. In that case, it's important to know the right time to initiate your SIP, strategies for increasing your contributions to enhance your returns, and guidance on when it might be appropriate to pause or close your investment plan. Understanding these key aspects can help you make informed decisions and maximize your investment potential.

**b) Early Start:** Begin investing as soon as you can. The earlier you start, the more time your money has to grow and accumulate returns. Even small amounts can add up over time.

For instance, if you commit to investing ₹10,000 each month for a duration of 25 years in an equity mutual fund, and if the fund achieves an average annual return of 12%, your total investment of ₹30 Lakhs could grow to approximately ₹1.70 Crores. Long-term investing generates a decent corpus due to the compounding effect.

## 2. When to Step Up a SIP

If your financial situation improves—like getting a raise or earning extra income—you can consider increasing the amount you invest through step-up options either half-yearly or yearly.

It is an investment process that, once you opt for it, automatically increases yearly or half-yearly as your income grows. There is no right or wrong time to step up SIPs.

It should be done in tandem to increase your SIP amount at regular intervals, either by a certain percentage (say 10% yearly) or a lump sum amount (say Rs. 1000 per annum).

For Example, if you choose a yearly step-up investment option of 10% and set up a monthly systematic investment plan (SIP) of ₹10,000 for a duration of 25 years, assuming a steady rate of return of 12% per annum, you could accumulate approximately ₹3.94 Crores.

That means by investing a total of ₹1.18 Crores over 25 years, you can achieve ₹3.94 Crores on your investment in equity mutual funds.



By opting for the step up, you can reach your financial goals faster. It is a fantastic investment tool, which helps you build your savings even faster.



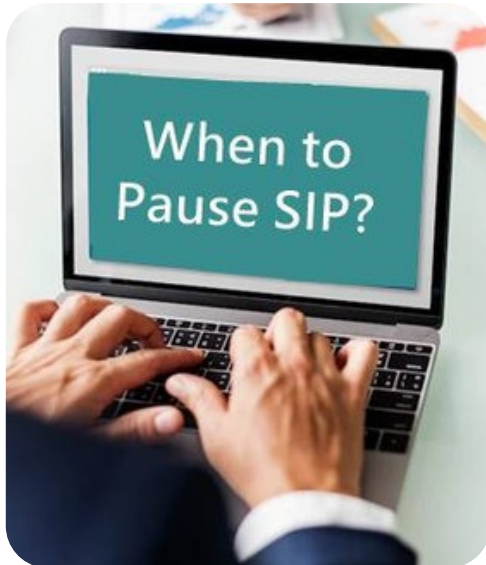
## 1. When to Start a SIP

**a) Clear Financial Goals:** Before starting a SIP, define your financial goals, such as Retirement, purchasing a home, or your children's education. Each goal should have a fixed monetary value and a Specific period.

Table-2

Descriptions	Without Step up	With Step up
Monthly SIP Amount	₹ 10,000.00	₹ 10,000.00
Step up yearly	-	10%
Period- Years	25	25
Assume a rate of return per annum	12%	12%
Investment Amount	₹ 30,00,000.00	₹ 1,18,01,647.00
Estimated Corpus	₹ 1,70,40,069.00	₹ 3,93,96,640.00

### 3. When to Pause a SIP



**a) Financial Emergencies:** If you face financial challenges or unforeseen expenses, you have the option to temporarily halt your SIP (Systematic Investment Plan) investments. Once your financial situation stabilizes, you can easily resume your SIP contributions. It's essential to regularly evaluate your investment portfolio and financial objectives during this time. Additionally, considering your financial target, you can increase your SIP contributions or start a step-up SIP to compensate for any underperforming investments.

**b) Changes in Financial Goals:** If your financial goals change due to unavoidable circumstances, you can pause or adjust your SIP.

### 4. When to Stop a SIP

**a) Achievement of your goals:** Stop your SIP once you've achieved your financial goal. When your financial goals amount is achieved, you can stop the SIP and transfer the money from equity-related products to Debt products, which are less risky or have no risk. On the other hand, if you need to withdraw your money or feel the need to focus on other financial goals, it's fine to stop your SIP. Be mindful of how it might impact your long-term savings.

**b) Change in Financial Situation:** If your financial situation changes significantly, you might need to stop or adjust your SIP. "Invest ten thousand monthly, get one lakh monthly." This statement sounds very lucrative. For Example, an individual who starts investing at the age of 40 can consider allocating ₹10,000 per month to equity mutual funds via a Systematic Investment Plan (SIP).

**c) Alternative, better-suited Investment Opportunities:** If you find a more suitable investment opportunity, consider stopping your SIP.



### Goal-Based SIP:

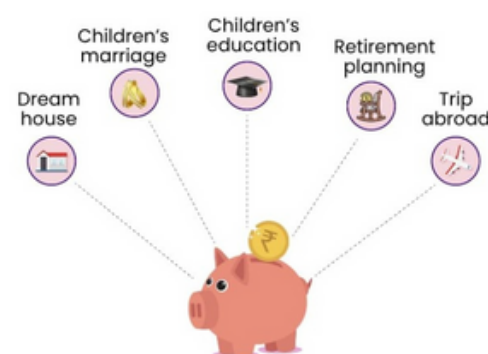
It is a structured approach to achieving your financial goals.

By the time she reaches the age of 60, she can plan to withdraw ₹100,000 per month for a duration of 20 years through a Systematic Withdrawal Plan (SWP). This strategy could provide a steady income stream to individuals during their retirement.

When your first SIP investment reaches near ₹100,000, consider implementing a Systematic Transfer Plan (STP) from an equity fund to a conservative hybrid fund. This strategy can help minimize income tax when using a Systematic Withdrawal Plan (SWP), allowing you to generate a tax-free monthly income of ₹100,000.

By understanding these simple steps, you can make informed decisions about your investments and work towards a secure financial future.

### Fulfill all financial goals Through SIP





## Conclusion:

Systematic Investment Plans (SIPs) provide a level of flexibility that appeals to many investors. They allow individuals to begin, pause, or stop their investments at their discretion. Unlike traditional investment options, which often require a long-term commitment, SIPs do not impose strict obligations, making them accessible for a range of financial situations. However, it's essential to note that maintaining a longer investment horizon can often result in significantly higher returns compared to making a one-time lump-sum investment.

The longer the investment horizon, the greater the impact of compounding. For example, if you invest ₹15,000 monthly through a Systematic Investment Plan (SIP) for 25 years, your portfolio could grow to ₹2.84 crores. However, extending the investment period to 30 years could increase the portfolio value to ₹5.29 crores, while maintaining the same monthly contribution. It means your total contributions would be ₹9 lakhs, resulting in a return of ₹2.45 crores. This illustrates how time can significantly enhance your investment potential.

Historically, over a period of 10 years or more, the probability of incurring a loss is very low. However, one can achieve returns of around 12% by investing in a diversified equity fund.



The performance of the Nifty 50 index serves as a key illustration of this point. Currently, over the past decade, the index has achieved an impressive return of 188.80%, reflecting a compound annual growth rate (CAGR) of 11.20%. Generally speaking, equity funds consistently outperform their benchmark indices, particularly over investment horizons of ten years or longer.

Investors should understand the concept of long-term investment and the power of compounding. By establishing specific financial goals—such as saving for retirement, funding a child's education, or achieving financial independence—and committing to a consistent and disciplined investment approach, they can effectively navigate the path to success. With patience and a clear vision, each small investment can grow exponentially over time, which fulfills their desired goals.

## Disclaimer:

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