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YOUR MONEY

Should you invest in SIPs for perpetuity?

Ideally, one should opt for 5- to 10-year period in an MF scheme or exit when the goal is reached

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While filling out the mutual fund application form for a systematic investment plan (SIP), chances are you have opted to invest for perpetuity. That is, if you did not choose a specific time plan, the investment runs for perpetuity by default.

But it may not necessarily be a bad idea. Choosing to invest for perpetuity ensures that you will not forget to renew your SIP and thereby miss out on the reinvestment opportunity, say experts. A Balasubramanian, chief executive officer (CEO), Birla Sun Life Asset Management Company says for the past three years, there is an increasing trend of most SIPs being registered for perpetuity. "Earlier investors would subscribe for SIP for one year. But nowadays investors are subscribing for perpetuity. If you contract for one year then you have to renew it. And most of the time people forget to renew it," he says.

If not perpetuity, investors should ideally sign up for an SIP in a diversified equity fund for 10 years says Sundeep Sikka, CEO, Reliance Nippon Asset Management Company. "Investors signing up for 5-10 years is more common now than the earlier average of one-three years. Since the amounts are small and get deducted automatically from the bank account, investors don't notice when the SIP stops. When this happens, investors miss out on investment. For instance, the market has run up quite a bit since December. If your SIP had stopped before that and you forgot to renew it, you would have missed out on all the gains since December. While retail investors should not time the market, they should not miss out on the natural timing, which is what a SIP offers," he says.

Ideally, one should diversify across two-three different fund houses and choose schemes with a track record of 15-20 years. That will reduce the chances of the fund not performing and the worry about having to stop the SIP mid-way. "Over a 15-20 years' time frame, the scheme will have gone through different market cycles and the fund house will know how to sail through them," Sikka says.

However, when the fund performance turns bad, one should stop that investment and move to other funds, advises Vidya Bala, head of Mutual Fund Research, FundsIndia. "Exiting right away may incur expenses like exit load and taxation. Unless it is a really bad fund, we advise investors to stop the SIP, hold them and move to a new fund so that the impact is minimal," she says. Nowadays more investors are also doing top-ups in their existing SIPs as and when they get an increment. "The average ticket size in SIPs which was less than ₹2,000 three years ago is now more than ₹4,000," says Sikka.

Seasoned investors, who understand how mutual funds work, can also look at investing more when the market is falling or less when the market is rising through value averaging plans. But set a good range because while investing more in a falling market the amount has to be substantially more than what you normally invest for it to work. "For instance, if you are normally investing ₹5,000 regularly, if you want to invest more in a down market you must ideally invest at least ₹5,000. It would be better if you can set a range of ₹5,000-15,000," Bala says.

SIP WORLD

13.1 mn
Total SIP accounts in the industry

618,000
Average number of SIPs getting added in a month

₹3,100
Average size of an SIP account

₹4,050 cr
Amount collected via SIPs in February 2017

Note: According to data from Amfi