SIP YOUR WAY TO GLORY

Investing systematically in stocks can help investors build wealth and overcome the fears of uncertainty

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NO one can time the rise and fall of the equity market. Equity market by nature is volatile, however it tends to deliver superior performance over the other asset classes in the long run. In fact, if discipline and patience are your virtues, equities could help you create sustainable wealth. In FY2018 Nifty witnessed a gain of ~10 per cent, outperforming all asset class. Long-term average return for equity is 12-14 per cent, higher than most traditional asset class.

It has been observed that investors tend to stay away from the equities due to short term volatility and the perception that investing in equities demands sizeable capital for investment . It's high time the perception towards equity investing needs to change.

What matters the most is sound corporate earnings. So what's in store for FY2019?

While corporate earnings have remained muted in FY2018, it's expected to be better in FY2019 due to low base of earnings after flattish growth over the last five years and also due to settling down of never before tax reform like GST. We expect corporate earnings of Nifty companies to grow by 10-12 per cent for FY19. The micro is looking to do good, but macros may be impacted on back of the rising geopolitical tensions along with increasing crude oil prices. With key state election and general election in 2019, the Indian equity market will remain volatile, but this is where the opportunity lies for investors to keep their calm and get into the act of accumulating wealth.

While it's a myth that one requires huge corpus to invest in equities, the solution is now here. Investing in equities can also be made in a systematic manner, just like systematic investment plan (SIPs) in mutual funds. This will help you to derive the benefit of averaging your costs by spreading your investments over various time periods and price levels.

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The caveat to this strategy is discipline, understanding of markets and stocks, and ability to keep track of investments. In which case, you can select a couple of companies and buy them on market dips at smaller amounts. This will help to accumulate on your conviction picks and in the process, bit by bit; you will have invested a sizeable corpus over the long-term. With cost averaging and value appreciation in due course, such investors can reap the benefits of inflation-beating-return.

For example, if you would have bought one stock each of Titan Company, Britannia, KEC International, KNR Constructions and IndusInd Bank on the first day of every month starting from April 1 2017 till March 1 2018, you would have made an investment of Rs 83,948 on these investments over the period of one year. At the end of March 31 2018, your portfolio would have been worth Rs 1,00,591, amounting to annualised internal rate of return (XIRR) of 42.3 per cent. Even in absolute terms, the returns would be close to 20 per cent for the above five stocks picked in the last 12 months, as against 11.3 per cent of the BSE Sensex and 11.8 per cent of BSE 500 Index. This way, not only you average out your investing cost and cut volatility but also increase the number of accumulated shares in the long term. In due course of time, when the stock appreciates, your investment will see exponential gains.

Meanwhile, the strategy of buying once a month works well in a normal market condition and was a good strategy until now. However, now onwards the strategy in a volatile market should be to spread ones investment to five times a month. This would help to protect the portfolio in case of a steep downside as the law of averaging comes into effect and helps investor to make more gains from volatility and uncertainty.

To start a SIP in stocks, investors are required to sign a debit mandate in favour of the stockbroker to collect funds from investors' bank account. Further, you would require to give an investment mandate to purchase shares on your behalf periodically and the rest of the legwork will be taken care by your service provider who will place the order for the desired number of shares at regular intervals on your behalf.

Further, the investor enjoys complete flexibility into the quantity to be purchased, amount per installment and also the periodicity of investing depending upon the individual requirements. What is interesting about this route is the fact that in case of liquidity crunch, an investor can pause their investment for a few months. Studded with the convenience of investing and investor-friendly features, 'SIP in Stocks' leaves no excuses to investors not to invest in stock market, especially with the positive market outlook for the future.