REMAIN INVESTED IN SIPS FOR DELIVERANCE FROM MARKET VOLATILITY, SHOULDN'T YOU ?

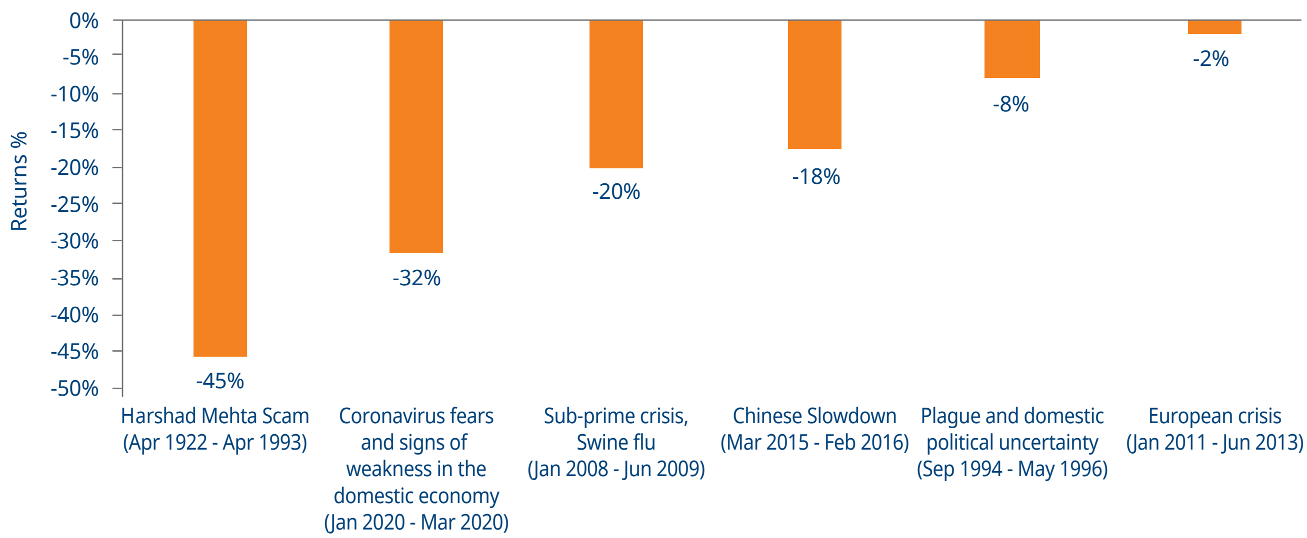
Systematic Investment Plans, or SIPs as they are popularly called, have caught the fancy of investors in recent years. Average monthly net flow into the investment vehicle has ballooned from Rs 3,122 crore as of April 2016, when the Association of Mutual Funds in India began disclosing the data, to Rs 8,513 crore as of February 2020.

However, the wild swings in the equity market of late could put some doubt in the most resolute of investor about continuing to plough their savings into SIPs.

Market volatility is nothing new

So, should you stop investing via SIPs in a falling market, or redeem your corpus? The resounding answer is **'NO'**! But, before we delve into the reasons as to why investors should not rush for the exit, one should first appreciate that volatility in equity markets in not a new phenomenon. It is a recurring theme of the asset class, the case in point being the Harshad Mehta scam, the financial crisis, European crisis, etc. to name a few.

Market carnages in the history due to health and economic events



Source: CRISIL Research and BSE, 29th FEB 2020

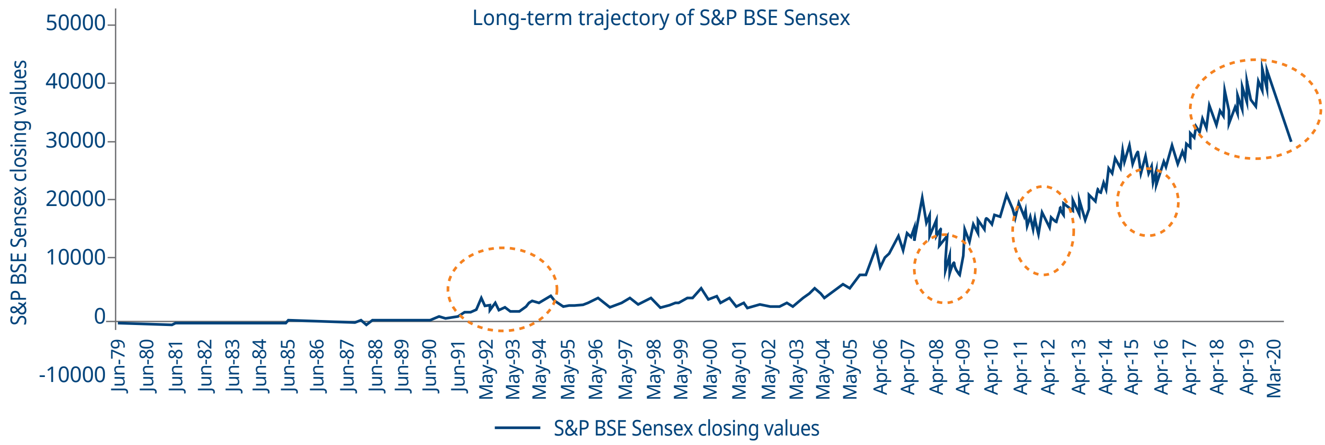
How do investors react to such deep market corrections?

These 'black swan' events undoubtedly sow panic among Investors. In fact, market meltdowns invariably scotch reasoning, with herd mentality taking over.

This is where investors get trapped into making poor decisions. Some of the common mistakes investors'make:

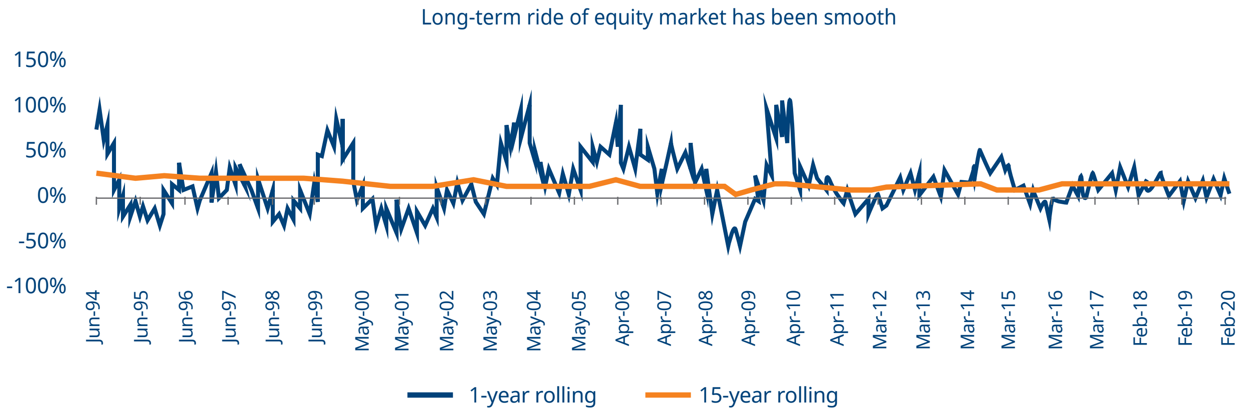
So, what does history tell us?

Over the long-term, the equity market has the ability to rebound on positive cues, and reward investors commensurately. While there have been periodic bouts of bear phases, the equity market has always headed north over a longer time frame. In fact, the S&P BSE Sensex has returned an average of 15% annualised return over 15years on daily rolling return basis since 1979 till February 2020.



Source: BSE, 15th Mar, 2020. Note: Orange circle indicates sharp market falls

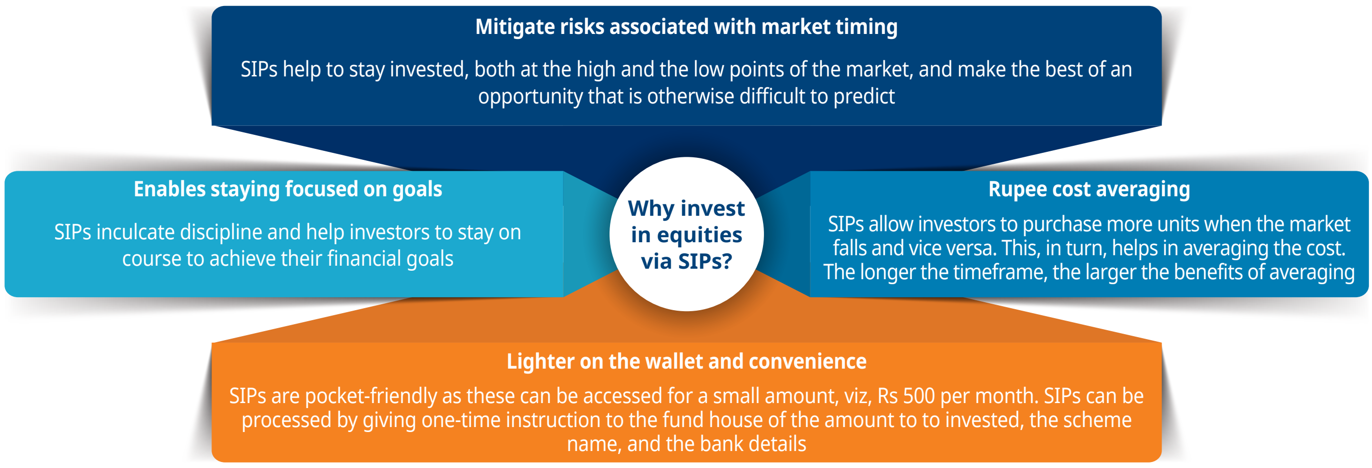
So, when the market is in free fall, it is prudent to hold onto the investment strategy. As can be extrapolated from the chart, the most ideal strategy is not to time the market, but rather accrue compounding benefits that volatility brings.



Source: BSE, 29th Feb 2020

However, patience is difficult during turbulent phases. This is where SIPs may help overcome human instinct.

Some of the benefits of SIP



SIP seeks to ensure protection from a volatile market

One of the biggest blunders that investors make is to discontinue or redeem their SIPs when the market starts falling.

But investors can take comfort from the data. Over the long term, SIPs have outshone lump-sum investment as investors were able to accumulate more units during downturns, lowered the average cost per unit, and ultimately aims to create more wealth.

Between January 2008 and February 2020,while CAGR returns was just ~5%, XIRR returns through the systematic route was almost double at 9%, thus showcasing the dividend of disciplined and regular investment.

Source: CRISIL Research, 29th FEB 2020

Disciplined approach via SIPs holds the key, isn't it?

Market phases	SIP returns	Lump sum returns
Bull phase (Apr 2003-Dec 2007)	47%	49%
Subprime crisis (Jan 2008-Mar 2009)	-36%	-45%
Sharp bounce back post sub-prime crisis (Apr 2009-Dec 2010)	29%	51%
European crisis (Jan 2011-Jun 2013)	6%	-2%
Post European crisis (Jul 2013-Feb 2015)	32%	28%
Chinese slowdown (Mar 2015-Feb 2016)	-26%	-22%
Global liquidity and domestic reforms driven rally (Mar 2016-Dec 2017)	19%	22%
Global trade war, signs of weakness in the domestic economy, and coronavirus woes (Jan 2018-Feb 2020)	3%	6%
End returns (Jan 2008 - Feb 2020)	9%	5%

Notes:

1) Monthly SIP of Rs 1,000 and lump-sum investment in S&P BSE Sensex considered for analysis
2) SIP returns are XIRR, while lump-sum is an absolute for investment period up to one year and CAGR for holding period of more than one year

Source: CRISIL Research, 29th FEB 2020

While investing in SIP, continuing the course, and in fact adding to the corpus in times downturns, may aim to provide an additional boost to the pie.

Let us look at an illustration to assess some of the benefits of SIP investing:

Ajay, Samir and Vikas began investing Rs 1,000 in an equity SIP, S&P BSE Sensex,from April 1997. Their approach to market volatility, however, varies.

- Ajay continues to invest Rs 1,000 during the several bear phases
- Samir doubles the SIP amount to Rs 2,000 for the next one year when the market falls more than 15% during any given month
- Vikas stops the SIP for the next one year, when the market falls more than 15% during any given month

	Ajay	Samir	Vikas
Total amount invested (lakh)	2.75	3.15	2.35
Units accumulated	35	42	28
Total value at the end of February 2020 (lakh)	13.24	15.93	10.54

The result: Vikas missed out on accumulating more units and, hence, gains in the corpus had he continued his SIP during the bullish as well as bearish market phases, as in the case of Ajay. Further, if Vikas had invested more monies during downtrends,like Samir,his portfolio would have accumulated more units, accruing him an additional gain of ~Rs 5 lakh.

So how does one not get swayed by the herd?

A pertinent way to not sell your SIPs during market downturns is to map these with your financial goals. This will enable you to stay focused, and keep the impulsive streak and the emotional biases under control.

For instance, a monthly SIP of Rs 3,000, assuming 15% return (average of daily annualised 15 years' rolling returns of S&P BSE Sensex as on February 2020 since June 30, 1979),can help fund a child's education costing Rs ~40 lakh over the set out 20-year horizon, or build a retirement kitty of Rs 1.68 crore over a 30-year period.

Summing up

Vladimir Lenin's quote - "There are decades where nothing happens and there are weeks where decades happens" - is apt for the current market environment, isn't it? There have been huge gyrations in the market off late, but investors need to be patient, remain invested, and have a long term perspective.

But, investors should also at intervals undertake due diligence. Investors should regularly track and monitor the schemes' performance to weed out underperformers, and rebalance their portfolio to stay on course for the big payday.

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