



Volume: 2, Issue: 7, 395-400
July 2015
www.allsubjectjournal.com
e-ISSN: 2349-4182
p-ISSN: 2349-5979
Impact Factor: 3.762

DM Jha

Msc (Ag), CAIIB, NCMP
(IInd level), MBA (Finance)

Mutual fund: SIP vis-à-vis lump sum investment

DM Jha

Abstract

There is a lot of confusion among common people, who are intended to invest their surplus fund in stock market through mutual fund, whether they should opt for systematic investment plan or lump sum investment, if they have both the provisions. It has been told, while investing in stock market either directly or indirectly, that we should not try to time the market rather we should try our time in the market. An effort has been made to compare the SIP with Lump sum investment. Three popular mutual fund schemes one each from three Asset Management Companies having highest Asset Under Management as on March 2015, have been selected for the purpose.

Keywords: Mutual fund, Systematic investment plan, Net Asset Value, Asset under Management, Discounting rate.

1. Introduction

The people having some surplus fund either regularly or in lump sum are always interested to park them properly to earn some benefits which can at least beat the inflation. The people are a heterogeneous group, they may be large or small, rich or poor, expert or layman and every type of people do not require same degree of protection depending upon the risk taking ability of the individuals. Here, we may call, the people having surplus fund and interested to earn something, as investors. Under normal circumstances an investor has the following objectives:

- safety of invested money,
- liquidity of investment and
- return on investment

Following investment options are available to a common investor

- Financial markets
- Capital market: Equity shares, Mutual fund, Bonds etc.
- Money market; Instruments having maturity less than one year.
- Real estate
- Traditional form of investment: Bank deposits, Public Provident Fund, Post office deposits etc.
- Commodity market
- Foreign exchange market

If we go through the movement of stock market, since last one year, which is mainly marked by BSE and NIFTY sensx, we observe that there is growth of around 13%. Under this circumstances, a normal investor naturally think that even as a passive investor he can earn around 13% per annum which is around more than twice the inflation rate and around one and half time more than average bank deposit rate. But making money is not simple as it appears and there are number of sips between cup and lips.

Here, under this article, we will discuss the investment in mutual fund which has been considered as moderate investment having less risk and more return.

A Mutual Fund is a trust, registered with the Securities and Exchange Board of India (SEBI) that pools the savings of a number of investors who share common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in diversified, professionally managed basket of securities at a relatively low cost.

In other words, a Mutual Fund allows investors to indirectly take a position in a basket of assets.

Correspondence

DM Jha

Msc (Ag), CAIIB, NCMP
(IInd level), MBA (Finance)

Mutual Fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document by Mutual Fund. The investors in capital market i.e. investment in stocks directly or through Mutual Fund route, have been told that they should not try to time the market rather they should try their time in the market.

Under normal circumstances the investors have either recurring or lump sum surplus fund to invest. If the investors do not have lump sum amount to invest Systematic Investment Plan (SIP) is good idea.

But the assertion about “Time in the Market” is not always true, which will be discussed later in this article.

1.1 Systematic Investment Plan or SIP

Systematic Investment Plan enables to build a portfolio over a longer time horizon with small investments at regular intervals reducing the risk of market volatility. SIP works on the principle of regular investments, just like a recurring deposit where we put in a small amount at regular interval for certain tenure in place of a heavy one-time investment. The interval may be weekly/fortnightly/monthly/quarterly. The dates currently available for SIPs are the 1st, 7th, 10th, 20th and the 25th of a month.

The systematic investment plan may be either quantity based or amount based. In another words, we can say that either fixed no. of units/stocks may be purchased or fixed amount may be invested at regular interval. Here, under this article, amount based SIP has been considered.

2. Advantages of SIP

2.1. Discipline: The cardinal rule of building corpus is to stay focused, invest regularly and maintain discipline in investing pattern. A few hundred set aside every month will not affect our monthly disposable income. We will also find it easier to part with a few hundred every month, rather than set aside a large sum for investing in one shot.

2.2. Power of compounding: Investment expert always recommend that one must start investing early in life. One of the main reasons for doing this is the benefit of compounding. It can be explained with the following example.

	Person X	Person Y
Amt./Annum	25000	25000
Investment started at the age	30	35
Discounting rate	10%	10%
Corpus at the age of 60	41.12 lakh	24.59 lakh

There is difference of investment of Rs.1.25 lakh only but the difference in corpus is Rs.16.53 lakh which is due to the effect of compounding. The longer the (compounding) period, higher the returns.

2.3. Rupees cost averaging: This is especially true for investments in equities. When we invest the same amount or purchase same quantity of stocks/units in a fund at regular intervals over time, we buy more units in case of investment of fixed amount when the price is lower and invest fewer amounts for buying fixed quantity of units/stocks. Accordingly we reduce our average cost per share (or per unit) over time. This strategy is called 'rupee cost averaging'.

People who invest through SIPs capture the lows as well as the highs of the market and our average cost of investing comes down since we go through all phases of the market, bull or bear. For example BSE sensx was as high as 29681.77 on 29.01.2015 and as low as 24684.85 on 02.06.2014 during last one year.

2.4. Convenience: This is a very convenient way of investing as we have to just submit the enrolment form and mandate form along with the cheque. The registrar and transfer agent presents the cheque on the specified date and after realization of cheque they credit the units in the folio allotted to the investor. Further, on the basis of mandate form, the fixed sum will automatically be debited from the account of investor on specified date regularly through ECS (Electronic Service Facility).

2.5. Other Advantages: The Capital gains, wherever applicable, are taxed on a first-in and first-out basis. In India, Franklin Templeton introduced the concept of SIPs and since then there is a comparison between SIP and lump sum investments that which of the two will generate higher returns in coming future. But it is quiet difficult to compare these two because of difference in cash flow. In case of lump sum investing, the investor has money in hand that can be invested, whereas in case of SIP, the investor may not have lump sum on hand and may have regular surplus expected in future. If a person does not have lump sum money available to invest, there is no question of one investing at one go. Similarly, if there is a person whose future income is uncertain, there is no question of SIP. Even after the difficulty discussed earlier in comparing the SIP with lump sum, we have tried to compare these two.

3. Objectives

- To know, which form of investment (SIP or Lump Sum) earns more growth.

4. Research Methodology

For this purpose we have selected one each equity open ended growth option mutual fund from the following AMC's which have highest AUM(Asset under management) as on 31.03.15.

AMC	AUM (cr)	Selected Scheme
HDFC MF	161634	HDFC Top 200 Fund (Growth)
ICICI Prudential MF	148559	ICICI Pru Value discovery Fund (Growth)
Reliance MF (Growth).	137134	Reliance Equity Opportunities Fund –Retail Plan

For SIP purpose we have taken the date of investment based on NAV at the last business day of each month starting from June 2005 to May 2015 in two different ways and fixed the SIP monthly installment for 1, 2, 3,4,5,6,7,8,9 and 10 years in such a way that their present value of annuity is around Rs. 1 lakh using the discounting rate 0.83% i.e. 9.6% annum simple. In first case, May 2015 has been fixed for redemption for all tenures starting from June 2005 to June 2014. In second case, June 2005 has been fixed for starting the investment for all tenures and redemption date is varied from May 2006 to May 2015 depending upon the tenures. Detailed illustrations in respect of present value of annuity are as under.

Present Value of annuity for different tenures @ 9.6% per annum

Tenure	Discounting rate	Monthly annuity	PV of annuity
120	9.6%	1322	100037
108	9.6%	1408	100009
96	9.6%	1517	99973
84	9.6%	1660	99993
72	9.6%	1853	100022
60	9.6%	2125	100014
48	9.6%	2536	99990
36	9.6%	3227	100009
24	9.6%	4615	100011
12	9.6%	8792	100005

5. Results and Discussion

While going through the data it is found that

- The investors who had started the SIP in the month of June 2007 for 8 years with monthly installment of Rs.1517/, they must have earned more than those investors who had invested lump sum amount of Rs.99973/. Although their returns are different in all the three funds but one thing is common in all the three funds that return on SIP is more than the return on lump sum investment during June 2007 to May 2015. (Refer Table no. I, III and V).
- The investor who had started SIP in the month of June 10 for 5 years in ICICI Pru Value Discovery and HDFC Top 200, they have also earned more than the lump sum investment.(Refer table no. I & V).
- The investor who had started SIP in the month of June 11 for 4 years in Reliance Equity Opportunities Fund (Growth)and HDFC Top 200, they have also earned more than the lump sum investment.(Refer table no. I & V).
- In all other cases except mentioned above, earning in lump sum investment exceeded the earning in SIP for all tenures considerably.
- In case of lump sum investment, the highest growth to the tune of 66.82% for 120 months tenure, among all tenures, has been observed in ICICI Pru value discovery Fund. (Refer table no. I & II).
- In case of HDFC Top 200 and Reliance Equity Opportunity, highest growth to the tune of 60.23% and 49.57% respectively for 120 months among all tenures except in case of Reliance Equity Opportunity for June 14 to May 15(Table no.III) and HDFC Top 200 for June 2005 to may 2006(Table no. 6), has been observed in case of lump sum investment.
- In case of SIP, highest growth for 120 months tenure has been observed in all selected schemes and it is highest to the tune of 42.87% in case of ICICI Pru Value Discovery, among all selected schemes.

6. Conclusion

As already discussed earlier, it is quiet difficult to compare SIP and lump sum investment due to the reasons that if a person do not have lump sum amount they cannot think about lump sum investment and an investor who have lump sum amount and opt SIP than how and where they will park their fund. And, hence, we can conclude as under:

- An investor who expect regular surplus in future, they must go for SIP.
- If we have lump sum money and the market is bullish, it is better to opt STP (Systematic Transfer Plan) and they should park their fund in liquid fund and mandate should

be given to AMC of liquid fund to transfer the fund systematically i.e.at regular interval to the selected equity/debt fund.

- If we have long horizon for investment, say for 10-15 years, growth in lump sum investment is always more than SIP.
- SIP is best suited for those who do not have lump sum amount but expect regular surplus in future.

Table 1: Comparison between SIP and Lump sum investment for different tenures having redemption date is fixed on May 2015. ICICI PRU VALUE DISCOVERY FUND (Growth)

Months	Period	SIP					LUMPSUM INVESTMENT			
		Monthly SIP	PV of total SIP	Total Units Purchased	Redemption value	Simple Growth (%)	Total investment	Total Units purchased	Redemption value	Simple Growth (%)
120	June 05 to May 15	1322	100037	4583.913	528892	42.87	100037	6660.253	768460	66.82
108	June 06 to May 15	1408	100009	4048.178	467079	40.78	100009	4742.010	547133	49.68
96	June 07 to May 15	1517	99973	3647.352	420831	40.12	99973	3459.273	399131	37.40
84	June 08 to May 15	1660	99993	3321.286	383210	40.46	99993	4176.817	481921	54.56
72	June 09 to May 15	1853	100022	2481.636	286331	31.04	100022	3654.439	421649	53.59
60	June 10 to May 15	2125	100014	2240.483	258507	31.69	100014	2196.662	253451	30.68
48	June 11 to May 15	2536	99990	2048.181	236319	34.09	99990	2054.871	237091	34.28
36	June 12 to May 15	3227	100009	1753.459	202314	34.10	100009	2054.417	237039	45.67
24	June 13 to May 15	4615	100011	1468.315	169414	34.70	100011	1952.196	225244	62.61
12	June 14 to May 15	8792	100005	1006.002	116073	16.07	100005	1110.796	128164	28.16

Table 2: Comparison between SIP and Lump sum investment for different tenures having purchase date is fixed on June 2005. ICICI PRU VALUE DISCOVERY FUND (Growth)

Months	Period	SIP					LUMPSUM INVESTMENT			
		Monthly SIP	PV of total SIP	Total Units Purchased	Redemption value	Simple Growth (%)	Total investment	Total Units purchased	Redemption value	Simple Growth (%)
120	June 05 to May 15	1322	100037	4583.913	528892	42.87	100037	6660.253	768460	66.82
108	June 05 to May 14	1408	100009	4721.003	390096	32.23	100009	6658.3888	550183	50.01
96	June 05 to May 13	1517	99973	4770.407	262325	20.30	99973	6655.992	366013	33.26
84	June 05 to May 12	1660	99993	4853.901	228619	18.38	99993	6657.3236	313560	30.51
72	June 05 to May 11	1853	100022	4928.545	242534	23.75	100022	6659.2543	327702	37.94
60	June 05 to May 10	2125	100014	5127.759	225980	25.19	100014	6658.7217	293450	38.68
48	June 05 to May 9	2536	99990	5304.345	141891	10.48	99990	6657.1238	178078	19.52
36	June 05 to May 8	3227	100009	4732.825	130247	10.08	100009	6658.3888	183239	27.74
24	June 05 to May 7	4615	100011	4906.154	137127	18.56	100011	6658.522	186106	43.04
12	June 05 to May 6	8792	100005	5207	130123	30.12	100005	6658.1225	166386	66.38

Table 3: Comparison between SIP and Lump sum investment for different tenures having redemption date is fixed on May 2015. RELIANCE EQUITY OPPORTUNITIES-RETAIL PLAN (Growth)

Months	Period	SIP					LUMPSUM INVESTMENT			
		Monthly SIP	PV of total SIP	Total Units purchased	Redemption value	Simple Growth (%)	Total investment	Total Units purchased	Redemption value	Simple Growth (%)
120	June 05 to May 15	1322	100037	6095.831	457626	35.75	100037	9358.8736	702589	60.23
108	June 06 to May 15	1408	100009	5283.322	396630	32.95	100009	6126.8762	459957	39.99
96	June 07 to May 15	1517	99973	4764.334	357668	32.22	99973	4270.5254	320597	27.59
84	June 08 to May 15	1660	99993	4418.457	331702	33.10	99993	5370.1933	403151	43.31
72	June 09 to May 15	1853	100022	3481.343	261351	26.88	100022	4961.901	372500	45.40
60	June 10 to May 15	2125	100014	3027.324	227267	25.45	100014	3068.7613	230378.05	26.07
48	June 11 to May 15	2536	99990	2761.796	207334	26.84	99990	2733.0873	205178	26.30
36	June 12 to May 15	3227	100009	2388.758	179329	26.44	100009	2748.255	206317	35.43
24	June 13 to May 15	4615	100011	2062.445	154832	27.41	100011	2494.8487	187293	43.64
12	June 14 to May 15	8792	100005	1512.741	113564	13.56	100005	1631.9886	188299	88.29

Table 4: Comparison between SIP and Lump sum investment for different tenures having purchase date is fixed on June2005. RELIANCE EQUITY OPPORTUNITIES-RETAIL PLAN (Growth)

Months	Period	SIP					LUMPSUM INVESTMENT			
		Monthly SIP	PV of total SIP	Total Units purchased	Redemption value	Simple Growth (%)	Total investment	Total Units purchased	Redemption value	Simple Growth (%)
120	June 05 to May 15	1322	100037	6095.831	457626	35.75	100037	9358.8736	702589	60.23
108	June 05 to May 14	1408	100009	6250.124	351257	27.91	100009	9356.2541	525821	47.31
96	June 05 to May 13	1517	99973	6317.041	264791	20.61	99973	9352.8861	392045	36.52
84	June 05 to May 12	1660	99993	6425.571	228455	18.35	99993	9354.7572	332599	33.23
72	June 05 to May 11	1853	100022	6526.323	232787	22.12	100022	9357.4703	333772	38.95
60	June 05 to May 10	2125	100014	6771.194	210293	22.05	100014	9356.7219	290592	38.11
48	June 05 to May 9	2536	99990	6929.131	139019	9.76	99990	9354.4766	187679	21.92
36	June 05 to May 8	3227	100009	6290.539	141072	13.69	100009	9356.2541	209823	36.60
24	June 05 to May 7	4615	100011	6786.074	154336	27.16	100011	9356.4412	212794	56.39
12	June 05 to May 6	8792	100005	7549.759	128323	28.32	100005	9355.8799	159022	59.01

Table 5: Comparison between SIP and Lump sum investment for different tenures having redemption date is fixed on May 2015. HDFC TOP 200 FUND (Growth)

Months	Period	SIP					LUMPSUM INVESTMENT			
		Monthly SIP	PV of total SIP	Total Units purchased	Redemption value	Simple Growth (%)	Total investment	Total Units purchased	Redemption value	Simple Growth (%)
120	June 05 to May 15	1322	100037	1075.846	367475	26.73	100037	1744.5373	595878	49.57
108	June 06 to May 15	1408	100009	919.731	314151	23.79	100009	1165.1443	397976	33.10
96	June 07 to May 15	1517	99973	813.732	277945	22.25	99973	830.75453	283759	22.98
84	June 08 to May 15	1660	99993	749.38	255964	22.28	99993	866.3103	295904	27.99
72	June 09 to May 15	1853	100022	620.564	211965	18.65	100022	695.75198	237647	22.93
60	June 10 to May 15	2125	100014	561.913	191931	18.38	100014	517.57972	176789	15.35
48	June 11 to May 15	2536	99990	526.377	179794	19.95	99990	471.2375	160960	15.24
36	June 12 to May 15	3227	100009	468.803	160128	20.04	100009	501.13748	171173	23.72
24	June 13 to May 15	4615	100011	409.572	139897	19.94	100011	474.56606	162097	31.04
12	June 14 to May 15	8792	100005	313.739	107163	7.16	100005	318.57248	108814	8.81

Table VI: Comparison between SIP and Lump sum investment for different tenures having purchase date is fixed on June2005. HDFC TOP 200 FUND (Growth)

Months	Period	SIP					LUMPSUM INVESTMENT			
		Monthly SIP	PV of total SIP	Total Units purchased	Redemption value	Simple Growth (%)	Total investment	Total Units purchased	Redemption value	Simple Growth (%)
120	June 05 to May 15	1322	100037	1075.846	367475	26.73	100037	1744.5373	595878	49.57
108	June 05 to May 14	1408	100009	1095.589	320580	24.51	100009	1744.049	510326	45.59
96	June 05 to May 13	1517	99973	1099.907	241837	17.74	99973	1743.4212	383326	35.43
84	June 05 to May 12	1660	99993	1109.754	206432	15.21	99993	1743.7699	324369	32.06
72	June 05 to May 11	1853	100022	1123.363	235158	22.52	100022	1744.2757	365136	44.18
60	June 05 to May 10	2125	100014	1167.416	215805	23.15	100014	1744.1362	322416	44.47
48	June 05 to May 9	2536	99990	1214.503	169230	17.31	99990	1743.7176	242971	35.75
36	June 05 to May 8	3227	100009	1197.319	164841	21.61	100009	1744.049	240111.94	46.70
24	June 05 to May 7	4615	100011	1280.168	150721	25.35	100011	1744.0838	205340	52.66
12	June 05 to May 6	8792	100005	1411.852	123301	23.30	100005	1743.9792	152307	52.30

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