SHIV SHAKTI
International Journal in Multidisciplinary and Academic Research (SSIJMAR)
Vol. 1, No. 3, September-October (ISSN 2278 - 5973)

SYSTEMATIC INVESTMENT PLAN V/S OTHER INVESTMENT AVENUES IN INDIVIDUAL PORTFOLIO MANAGEMENT

(A Comparative Study)

Dr. Punita Soni[1]

Mrs. Iram Khan[2]

1 .Head and Associate professor, Department of Management Studies, JIET, Jodhpur

Email id-drpunitasoni11@gmail.com

2 .Research Scholar-Department of Business Administration, J.N.V.U. Jodhpur

Choosing a wise investing option is very necessary to minimize the risk and to maximize the return because a balance is required to be maintained between the risk and return. With the fulfillment of this objective, SIP has played a significant role in the Indian financial market. It's gives opportunities to small investors to invest their small amount and to take return of financial market with minimum risk.

Investment is a commitment of a person's funds to obtain future income in the form of interest, dividends, rent, premiums, pension benefits or the appreciation of the value of his principal capital. The main objectives are increasing return and to reduce the risk.

Investment, referred to as the concept of deferred consumption, which might consist of purchasing an asset, rendering a loan, keeping the saved funds in a bank account such that it might generate profitable returns in the future. It is the employment of funds with the aim of achieving additional income or growth in value.

At present, Bonds, Debentures, Equity Shares, Preference shares, Bank Fixed Deposit, Provident Fund, LIC, Mutual Fund, etc. wide variety of investment avenues are open to the investor to suit his varied preferences in terms of liquidity, safety, risk appetite, return, tax concessions etc. The investment avenue that proves to be the most attractive to an investor depends on his objectives and relevant circumstances at any particular time.

In other words, the options of investments are huge, all of them having different risk-reward trade off. Thus, the investment industry is really broad and that is why understanding the core concepts of investments and accordingly analyzing them is essential. After thorough understanding of the investment industry, an investor can create and manage his own investment portfolio such that the returns are maximized with the least risk exposure.

Now here arises a question- What is portfolio management? A portfolio is the combination of different investments that constitutes an investor's total holdings. It is just a basket or combination of securities based on the simple concept – "Not putting all your eggs in one basket, i.e., Diversification".

Basically portfolio management involves a proper decision making as to what to purchase and what to sell? Portfolio management is a dynamic concept and requires continuous and systematic analysis, judgment and operation. It is a process of construction, revision and evaluation of a portfolio to obtain maximum returns commensurate with the risk preference or tolerance of the investor.

Now a day's Mutual fund plays a crucial role in portfolio. A mutual fund is a financial instrument to collect saving of the individuals and institutions to channelizes them in corporate securities in such a way as it make sure its investor a triple benefit of steady return and capital appreciation along with low risk, due to investments being done after scientific study by the mutual fund manager.

The punch line famous in the investment industry **"Systematic Investment Plans – Small Savings, Big Returns"** holds well. Although, the concept of systematic investments are also available in post offices etc., but today SIPs have become synonymous to Mutual Funds which are regulated by Securities and Exchange Board of India (SEBI). Average Indian families have one or two earning members. So the scope of saving is also limited, which further reduces down the scope of bulk investment out of those savings. Therefore, SIPs can play an important role, as the concept itself is based upon small regular amount to be invested.

Systematic investment plans is a plan of mutual fund, in which the investments are done by paying a fixed amount at every predetermined date. Systematic Investing in a Mutual Fund is the answer to preventing the drawbacks of equity investment and still enjoying the high returns.

Mutual Fund SIP is a monthly based investment plan through which an investor could invest a fixed sum into mutual funds every month at pre-decided dates. This hedges the investor from market instability and derives maximum benefit as the investment is done at regular basis irrespective of market conditions. SIP is a feature especially designed for investors who wish to invest small amounts on a regular basis to build wealth over a long term.

Objectives of the study-

Objectives always provide the route and direction to a study to achieve its ultimate goal. The main objectives of this article are to understand the concept of Systematic Investment Plan, as prevalent in the Mutual Fund Industry in India and to comparatively analyze Systematic Investment Plans Vis a Vis other investment avenues.

Over a long term horizon, equity investments have given returns which far exceed those from the debt based instruments. They are probably the only investment option, which can build large wealth. In short term, equities exhibit very sharp volatilities, which many of us find difficult to stomach. Investment in equities requires one to be in constant touch with the market and a lot of research. Buying good securities require one to invest fairly large amounts.

Why SIP is important in Individual portfolio? - SIP has played a significant role in individual portfolio due to its benefits. It gives opportunities to small investors to invest their small amount and to take advantages of financial market. These benefits are-

1. **Ease**: The process of investing in SIP is very easy. It can be operated by just providing post dated cheques with the completed Electronic Clearing system (ECS) instructions. The SIP facility is generally available in most of the mutual fund schemes; the main schemes for SIP are like Fixed Income generating schemes, Child Fund Schemes etc.

2. **Portfolio Diversification:** Portfolio diversification is the best way to reduce the risk. In SIP, the Mutual Funds invest in various companies, across a broad cross-section of industries and sectors, in line with the objectives of the scheme. This diversification reduces the risk because hardly ever do all stocks decline at the same time and in the same proportion. We achieve this diversification through a Mutual Fund with far less money than one can do on his own.

3. **Professional Management:** The next importance of SIP is that with the help of it the investor avails the services of experienced and skilled professionals who are backed by a dedicated investment research team. Who always lead to invest after the analyses of the performance and prospects of companies and help to achieve the objectives of the scheme.

4. **Reduction of Risks:** An investor holds a diversified portfolio when he makes some investment in mutual funds. In adverse case of losses, the loss is shared by all the unit holders of the fund. Thus, the risk is reduced as compared to direct market where in adverse cases all the money is lost.

5. **Advantage of compounding of money:** SIP provides opportunities for investing early and to keep investing regularly. These regular amounts of savings, (no matter however small) may go for a long way in creating a considerable amount of wealth over a long-term and help in achieving our ultimate goal of accumulating wealth through the compounding interest rate or return.

Comparison of SIP with other investment avenues- SIP is better in comparison to other investment avenues on the basis of annual income, investment term, risk, tax benefits and liquidity. Investors prefer SIP because it helps to minimize the cost and maximize the return in individual portfolio. We can explain the same with the help of following table-

S.No.	**Product**	**Rate of Annual Income**	**Rate of Capital Appreciation**	**Investment Term**	**Risk**	**Marketability**	**Tax Benefit**	**Convenience**
Security form of Investment Avenues								
1	Equity share	Low	High	Long	High	High	Yes (partially)	High

2.	Preference Share	Average	Low	Long	Low	Average	Nil	low
3	Non-convertible Debentures	Average	Low	Medium-Long	Low	Average	Nil	High
4	Capital Gain Bonds	Low	Low	Long	Low	Low	Yes	Low
Non security form of Investment Avenues								
1	Unit Linked insurance plan ULIP	Nil	Average	Long	High	Average	Yes	High
2	**SIP**	**Low - High**	**Low - High**	**Monthly**	**Low**	**Average**	**Yes (Depends on type of scheme)**	**High**
3	Debt Mutual Fund	High	Low	Flexible	Low	High	Nil	High
4	Equity Mutual Fund	Low	High	Medium-Long	Medium-High	High	Yes	High
5	Real Estate	Low	High	Long	Average	Low	Limited	Low
6	Life insurance plan	Nil	Low	Long	Nil	Average	Yes	High
7	Real Estate Investment Trust	Low	High	Long	Low - Average	Average	-	High
8	Gold/silver/ETF	Nil	Average	Long	Average	Average	Nil	Average
11	Company Fixed Deposits	Fixed	Yes	Medium-Long	Medium	High	No	Medium
12	Provident fund	Nil	Average	Long	Nil	Average	Yes	High
13	Bank Fixed deposits	Low	Nil	Medium-	Low-	Average	Yes	High

				Long	Nil		(partially)	

1. As we know that normally we classify the investment in two categories- securities form of investment and non securities form of investment. In security form of investment, investors directly invest in different variable and fixed income group of securities, which provide more possibilities of income but increased the risk level. On the basis of table, if we compare it with SIP, indirectly SIP provides facilities to invest in these securities by professionals and it also minimizes risk by portfolio diversifications. This proves SIP is better than securities form of investment avenues.

2. The table shows that rate of annual income and rate of capital appreciation in SIP is flexible as per the types of scheme of SIP. Still it is in superior position from other investment avenues reason being no other investment avenues provide return equal to SIP, if we invest the equal amount somewhere else.

3. It provides better opportunities' for high income. Investment in SIP is on monthly basis, which is quite easy in comparison to other investment avenues and it is also suitable for middle class and lower class people because no need to invest large amount at a single time.

4. They can invest at the time when they received their salary in the beginning of month. Therefore, with the little investment, they can take advantages of market fluctuations'.

5. For the marketability point of view, again SIP is in better position reason being investors are well aware regarding to its schemes as these schemes are very popular in the market.

6. Along with the other advantages, SIP is also having the advantages of tax benefits (although depends on types of scheme).

7. With respect to the Convenience for investment in SIP, the persuasion to the customer is also very easy.

SIP has a lot of merit. At the same time the demerits of the scheme cannot be ignored. For instance, when the market has a continuous rising trend, a security risk is involved. Investing in a sector fund such as IT through SIP during boom-time would not give the investor much benefit, since the number of units accumulated would keep decreasing. Secondly, in a falling market, SIPs do not necessarily ensure profit but only protect the investor from losses.

Conclusion

In nutshell we can say that Mutual Fund's SIP is a monthly based investment plan through which an investor can invest a fixed amount into mutual funds every month at pre-assigned dates. This protects the investor from market volatility and derives maximum benefit as the investment is done at regular basis irrespective of market conditions. SIP is a best option planned for small investors who wish to invest small amounts regularly to build wealth over a long term. Investment in Systematic Investment Plan is more comfortable, beneficial and simple in comparison to other investment avenues like Equity Shares, Real Estate, Debentures and gold etc.

An investor who is not having huge amount to invest and also is not interested to take much risk on his investment should always select a 'Systematic Investment Plan' option. This will enable him to invest regularly and will improve investing discipline.

Though the SIP has its pros and cons, the benefits far outweigh the downsides. If the investor is able to take wise decisions and make the best of the Indian volatile market, SIP is definitely a powerful tool to create wealth over time. Being a disciplined investor pays off in the long run.

References:

Monthly / Yearly publications

- SEBI bulletin for the month of Dec 2009
- Handbook of statistics on the Indian Securities Market (2008), by SEBI
- "News Index", a newsletter of Bank of Maharashtra, Jan 2010 edition
- Systematic Investment Plan guide by ICICIDIRECT, June 30, 2009
- Investment Management &Security Analysis-Sonal Jain,Manish Rathi,Vipin Jain and Nupur Agarwal
- Security analysis & portfolio management –M.R. Agarwal

Websites

- http://www.amfindia.com
- http://www.bankbazaar.com/guide/how-does-a-daily-systematic-investment-plan-work/
- http://www.blonnet.com/2009/04/16/stories/2009041651091000.htm

- http://www.caclubindia.com/articles/why-systematic-investment-is-the-best-course--2218.asp
- http://easytimepass.blogspot.in/2011/01/advantage-of-doing-sip-on-mutual-fund.html
- http://www.thehindubusinessline.com/2009/08/28/stories/2009082852040100.htm
- http://www.equitymaster.com/detail.asp?date=10/01/2001&story=3&title=Systematic-Investment-Plan-A-study
- http://rj-finance.blogspot.in/2010/05/sip-systematic-investment-plans-by.html
- http://www.slideshare.net/ramesh1989/project-report-8655271
- http://www.thehindubusinessline.com/2008/10/18/stories/2008101852051500.htm
- http://www.thehindubusinessline.com/2009/08/21/stories/2009082151801000.htm