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OBJECTIVES

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SYSTEMATIC INVESTMENT PLAN (SIP): AN INSTRUMENT FOR ECONOMIC GROWTH

Dr. PRAGYA PRASHANT GUPTA
ASSOCIATE PROFESSOR
TECHNO INSTITUTE OF HIGHER STUDIES
LUCKNOW

ABSTRACT

The mutual fund sectors are one of the fastest growing sectors in Indian Economy and have awesome potential for sustainable future growth. From the last decade, Mutual funds and its various instruments like SIP, equity funds, debt and hybrid fund instrument have given lots of economic growth to the industry as well as an individual also. This present study is based on Systematic investment plan (SIP), which has emerged as an alternative investment plan for a large number of investors interested in high returns but less risk with investments in instalments. These funds make saving and investment simple, accessible and affordable. The benefits of SIP include professional management, diversification, variety, liquidity, affordability, convenience and ease of record keeping – as well as strict government regulation and full disclosure. This paper especially studies about various saving and investment and how the investment in mutual funds through Systematic Investment Plan (SIP) can gain momentum and increase percentage of income. In the present study has studied the various factors of investment and also considered by investors in selecting a Systematic Investment Plan. The purpose of the study is to find out the motivating factor to invest in a systematic investment plan and it also aims at exploring the potential of SIP in India with all problems, complexities and variables and suggesting the means and ways of meeting the challenges for developing the mutual funds in tandem with its potential of economic growth. This study is based on secondary data which also identify and analyze the challenges and opportunities for a systematic investment plan.

KEYWORDS

systematic invest plan (SIP), mutual funds, risk.

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G2, G11, R42.

1.0 INTRODUCTION

People always want to save some money for their future. For this purpose, they invest their precious amount in various types of investment schemes. Sometimes these investments gave a good return of amount but sometimes they feel that their investment was useless. At the final stage of their return on investment, they realize it's too late. But presently in the market, various traditional and modern investment schemes are there which are definitely helpful to provide a good return as well as secured future also. In the present time, various methods are available for saving and investment, for example, band fixed deposit, investment in gold, insurance schemes, real estate, PPF, recurring deposit, mutual funds, systematic investment plan, RBI bonds, National Pension Schemes etc. In these various methods, mutual fund or systematic investment plan is very progressive in terms of the return on investment. It's proving the utility in the present.

In the present scenario, we are hearing more and more about mutual funds as a means of investment. Actually, these mutual funds set up in the form of a trust and these trust has the sponsors, trustees, asset management company (AMC) and custodian. Every Mutual Fund registers with the Securities Exchange Board of India (SEBI) and which is regulated under the SEBI (MF) Regulation, 1996. These help to people to invest their money easily. Most investors want to make investments in such a way that they get sky-high returns as fast as possible without the risk of losing the principal money they have invested. So, while selecting an investment avenue, the investor should have to match their own risk profile with the risks associated with the product before investing. There are some investments that carry high risk but have the potential to generate high inflation-adjusted returns than other asset class in the long term while some investments come with low-risk and therefore lower returns. As a comparison to various modes of investment Systematic Investment Plan through mutual funds plays an important role, its higher return with proper security and risk is a major feature. From the last two decades, everyone wants a better future for which SIP is definitely is providing its valuable stand.

2.0 CONCEPT OF MUTUAL FUND

A Mutual Fund is a common pool of money where investors invest their contributions and which has to be invested in accordance with a stated objective. The ownership of the fund is thus joint or mutual which belongs to all investors. An investor's ownership of the fund is in the same proportion as the amount of the contribution made by him. A mutual fund is an investment vehicle, a company or a Trust that polls the resources of thousands of its shareholders or unitholders and invests on behalf of them in diversified securities to achieve the objectives of the scheme.

DEFINITIONS

SEBI (Mutual Fund) Regulation 1993 defines Mutual Fund as, "A find established in the form of a Trust by a sponsor to raise money by the Trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with these regulations."

The VNR Dictionary of Business and Finance defines mutual fund as "An investment fund that pools the invested funds of others and invests those funds on their behalf, usually in a specific kind of investment. Such as money market instruments. Municipal bonds or common stock."

3.0 HISTORY OF THE INDIAN MUTUAL FUND INDUSTRY

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank. The history of mutual funds in India can be broadly divided into four distinct phases which are as follows:

TABLE 1

Phases	Year	Enter
First Phase	1964 – 1987	
Second Phase	1987 – 1993	Entry of Public Sector Funds
Third Phase	1993 – 2003	Entry of Private Sector Funds
Fourth Phase	Since February 2003	Global Scenario

4.0 OBJECTIVES OF THE STUDY

Indian mutual fund industry is featured by a plethora of mutual fund schemes consisting of varying portfolio mix, investment objectives and expertise of professional fund managers. For the small investor, choosing a suitable one is, therefore, a complex decision. The main objectives of the study include various factors that affect investment in the Systematic Investment Plan (SIP). Following hypothesis were framed for the purpose of the study. The specific objectives of the study are as follows:

1. To analyze SIP's strength, weakness, opportunity and the threat (SWOT).

2. To analyze the benefits of SIP.
3. To analyze the purpose of the investment in SIP.
4. To analyze the returns earned by various methods or schemes and it compares to SIP.
5. To analyze the various feature that influences the respondents in selecting the SIP.
6. To analyze the various methods which influence the investor's investment.

5.0 NEED FOR THE STUDY

This study conducts systematic investment planning in mutual funds and it helps to reduce risk through the collection of fund from different securities and invest in different stocks. The benefit of diversification to the investor because it can make an investment in different securities diversifying the investment. Moreover, it helps to maximize the return of the portfolio because a mutual fund is managed by the professional and expert team and opportunity about to reinvest the return. The investor feels safety because mutual funds operation and management are closely observed by the stock exchange center.

6.0 RESEARCH METHODOLOGY

6.1 Research Design: The present study is descriptive in nature. The study has been done through secondary sources.
6.2 Source of Data: The present study is based on secondary data. The maximum information collected from secondary data will be collected through websites and from various books, magazines and journals, websites of AMFI, SEBI, government publications and other websites.
6.3 Tools of Analysis: The data collected for the study was analyzed logical and meaningfully to arrive at a meaningful conclusion.
6.4 Scope of the study: The study is confined to the factors considered by investors by selecting mutual funds for their various investments. The level of awareness about SIP, Source of information, factors influencing decision making has studied. This is the comparison of various factors such as investing methods, risk, return etc. of respondents. It also analyzes "The awareness of investment opportunities in mutual funds- special Significance on SIP."

7.0 REVIEW OF LITERATURE

A large number of studies on the growth and financial performance of Mutual Fund have been carried out during the past, in the developed and developing countries. Brief reviews of the following research works reveal the wealth of contributions towards the performance evaluation of Mutual Fund systematic investment plan. The following works of literature are related to this research topic.

Amarnath, B., Dr. Reddy, R. S. & Krishna, K. T (2012) have observed that if there is broad agreement that appropriately regulated Mutual Fund activity can play a large part in financial development in all its dimensions, these barriers can surely be addressed in a collaborative way between the three stakeholders – the investors, the fund managers and the regulators.

Kandpa, V, &Kavidayal, P.C. (2013) have given the information for restriction of mutual fund investment in top cities or urban areas is the lack of awareness level in the rural and semi-urban areas. The absence of product diversification and confusion in the market has been enlarged by the lack of marketing initiatives for Mutual Funds. The role of mutual fund agents or distributors is to educate the investor community. Therefore, the spread of Mutual Fund market has been limited.

Goswami, A. G. (2014) have observed mutual fund investment is a diversified portfolio of securities, which can include equity securities (such as common and preferred shares), debt securities (such as bonds and debentures) and other financial instruments issued by corporation and government, according to the stated investment objectives of the fund. The benefit to the investor in buying shares of the mutual fund comes primarily from diversification, professional money management and capital gain and dividend reinvestment at relatively low cost.

Joseph, G., Telma M. & Romeo, A. (Feb 2015) have observed that Systematic Investment Plan (SIP) will reduce risk when the market is volatile and SIP works more advantageously only on the bearish market whereas, Lump sum gives high returns in a bullish market. From this study, it can be concluded that in order to get better results from SIP, invest for a minimum period of 5 years is necessary.

Anich Uddin (2016) studied that Systematic investment plan (SIP) has emerged as an alternative investment plan for a large number of investors interested in high returns but less risk with investments in installments. With the help of primary data, results of the study found that for higher return with low risk the investor motivates to invest in systematic investment plan on the other hand knowledge and the operational platform is one of the main barriers that investor is facing of the scheme.

8.0 SYSTEMATIC INVESTMENT PLAN

A systematic investment plan is a method of investing in mutual funds. It is not a product, investment option or instrument in itself. It is just a process through which an investor can contribute small but regular amounts to build a good corpus. It is usually considered a good method if the investor has a long-term investment goal.

DIAGRAM 1

SIPs are considered to be the most effective means of investment since they allow the investor to invest in mutual funds for their future, without disturbing present lifestyle and expenditure pattern. SIP allows investors to invest a certain pre-determined amount at a basis either weekly, fortnightly or monthly as their convenience. A SIP is a planned approach towards investments and helps investor inculcate the habit of saving and building wealth for the future.

With SIPs, a specified amount is auto-debited from an investor's account at a particular time. An investor can also invest in a plethora of financial instruments like equity mutual funds, debt mutual funds, etc. based on their risk horizon and financial goals. Investments through SIPs usually gives better returns, in the long run, i.e. if invested for a longer period. Investing in SIPs also encourages and helps investors to develop a habit of investing since a fixed sum is to be invested at regular intervals. The investor can benefit out of cost averaging, i.e. buy more units in a low market and fewer units when the market is high, thus reducing the investor's average cost of purchasing.

TABLE 2: COMPARISON BETWEEN VARIOUS SAVING/INVESTMENT METHODS

Sr. No.	Various methods for saving and investment	Rate of Interest	Tenure	Security	Liquidity	Return on Investment	Taxation	Risk factor/ theft / fraud
1.	**Bank Fixed Deposit**	Varies	7 days to 10 years	High	Premature exit	Varies	Interest taxable as per tax slab	No risk
2.	**Gold / Silver**	Market-linked	Can be sold anytime	Medium	Varies	Market-linked	STCG – Added to income LTCG – 20% **	Low - moderate
3.	**Insurance Schemes**	Varies	10 – 20 years	Medium	Low	Moderate	u/s 80C deductions available	No risk
4.	**Real Estate**	Market- linked	Can be sold anytime	Moderate	High	Market-linked	STCG – Added to income LTCG – 20% **	High
5.	**PPF**	Moderate	15 Years	High	Partial withdrawal	Moderate	Interest tax free (EEE) status	No risk
6.	**Recurring Deposit**	Varies	7 days to 10 years	High	Premature exit	Varies	Interest taxable as per tax slab	No risk
7.	**Saving Deposit**	Low	Open or end anytime of life	High	Easily withdrawal	Low	Low	No risk
8.	**SIP / Mutual funds**	Market – linked / high	Can be sold anytime	High	High	High	Tax applicable	No Risk
9.	**RBI Bonds**	Moderate	7 Years	High	Low	Moderate	Tax applicable	No Risk
10.	**NPS**	Moderate	3 locking period	High	Tier I & Tier II options	Moderate	u/s 80C deductions available	No Risk

On the basis of above table, here is a look at the top 10 investment avenues where investors look at while savings for their financial goals.

1. **Bank Fixed Deposit (FD):** In India it a very popular method of investment. Through a bank or post office, fixed deposit (FD) is a safe choice for investors. Under the deposit insurance and credit guarantee corporation (DICGC) rules, each depositor in a bank is insured up to a maximum of Rs 1 Lakh for both principal and interest amount. As per the need, one may opt for monthly, quarterly, half-yearly, yearly or cumulative interest option in them. The interest rate earned is added to one's income and is taxed as per one's income slab. The main drawback of this scheme is liquidity because in an emergency investor can not withdraw lump sum or full amount before maturity. In some circumstances, if the investor withdraws their money he loses his good return on it.
2. **Gold:** India is a country where people more appreciate this precious metal. For this purpose, they invest more and more in this metal. Possessing gold in the form of jewellery has its own concerns like safety (purity and theft) and high cost. Then there are some 'making charges', which typically range between 6-14 percent of the cost of gold (and may go as high as 25 percent in case of special designs). For those who would want to buy gold coins, there's still an option. One can also buy ingeniously minted coins. In this investment, no doubt to say that liquidity is there but lots of risks (i.e., the purity of gold, theft or loss, etc.) is also there.

An alternate way of owning paper gold in a more cost-effective manner is through gold ETFs. Such investment (buying and selling) happens on a stock exchange (NSE or BSE) with gold as the underlying asset. Investing in Sovereign Gold Bonds is another option to own paper-gold. In Sovereign Gold Bond have some liquidity issue, it means an investor cannot withdraw before locking period or otherwise ready to bear the loss.

3. **Insurance Schemes:** Sometimes people think if they invest in insurance schemes they will be benefited from two sides. The first side, they secure the future's misfortune or any type casualty and the second side they would found some money for future. This is a nightmare who thinks that the insurance schemes are good for their investment. It was a traditional approach where investor invest their money in insurance schemes. In reality, through insurance schemes, nobody can get a good return.
4. **Real Estate:** It is a very demanding investing method in investor's point of view. No doubt real estate gives a higher return but some points are also important to know about that. The house that a person lives in is for self-consumption and should never be considered as an investment but an investor does not intend to live in it and buy the second property will be the real investment of an investor. The location of the property is the single most important factor that will determine the value of property and also the rental that it can earn. Investments in real estate deliver returns in two ways - capital appreciation and rentals. However, unlike other asset classes, real estate is highly illiquid. The other big risk is with getting the necessary regulatory approvals, which has largely been addressed after coming of the real estate regulator.
5. **Public Provident Fund (PPF):** The Public Provident Fund is also one of the most demanding investment schemes. The PPF has a long tenure of 15 years so as a result of the compounding of tax-free interest is huge, especially in the later years. Further, since the interest earned and the principal invested is backed by sovereign guarantee, it makes it a safe investment. The main drawback of this scheme is liquidity because in an emergency investor can not withdraw lump sum or full amount before maturity. In some circumstances, an investor can only partial withdraw their money and also loses his good return on it.
6. **Recurring Deposit (RD):** Recurring Deposit is also an investing method which provides a person with an opportunity to build up saving through regular monthly deposits of fixed sum over a period of time. Recurring Deposit is a special kind of Term Deposit offered by banks in India which help people with regular incomes to deposit a fixed amount every month into their Recurring Deposit account and earn interest at the rate applicable to Fixed Deposits. Minimum Period of Recurring Deposit is 6 months and the maximum is 10 years. Tax Deducted at Source (TDS) is applicable on Recurring deposits. As a comparison to other schemes, the main demerit is its return rate which is low. If the interest earned on recurring deposits exceeds Rs. 10,000 a year, TDS at the rate of 10% would be deducted by the bank. Income tax is to be paid on interest earned from a Recurring Deposit at the rate of tax slab of the RD holder.
7. **Saving Deposit:** It is not a proper investment scheme. It is a savings account or deposit account held at a retail bank which pays interest and these accounts holder can set aside a portion of their liquid assets while earning a monetary return. This is not an investment method. Some people held their lots of money in this account it is the biggest mistake from them. This deposit gives only 4 to 5 percent return. So it is not a method of investment.
8. **SIP/Mutual Fund:**

A. **Direct equity:** Investing in stocks may not be everyone's cup of tea as it's a volatile asset class and there is no guarantee of returns. Further, not only is it difficult to pick the right stock, timing of entry and exit is also not easy. The only silver lining is that over long periods, equity has been able to deliver higher than inflation-adjusted returns compared to all other asset classes.

At the same time, the risk of losing a considerable portion of capital is high unless one opts for the stop-loss method to curtail losses. In stop-loss, one places an advance order to sell a stock at a specific price. To reduce the risk to a certain extent, investor could diversify across sectors and market capitalizations. Currently, the 1, 3, 5 year market returns are around 13, 8 and 12.5 percent, respectively. To invest in direct equities, one needs to open a Demat account (An account that is used to hold shares and securities in electronic format is called a Demat account).

B. **Equity mutual funds:** Equity mutual funds predominantly invest in equity stocks. As per current Securities and Exchange Board of India (SEBI), Mutual Fund Regulations, an equity mutual fund scheme must invest at least 65 percent of its assets in equities and equity-related instruments. An equity fund can be actively managed or passively managed.

In an actively traded fund, the returns are largely dependent on a fund manager's ability to generate returns. Index funds and exchange-traded fund (ETFs) are passively managed, and these track the underlying index. Equity schemes are categorised according to market-capitalisation or the sectors in which they invest.

They are also categorised by whether they are domestic (investing in stocks of only Indian companies) or international (investing in stocks of overseas companies). Currently, the 1, 3, 5 year market return is around 15, 18 and 20 percent, respectively.

C. **Debt mutual funds:** Debt funds are ideal for investors who want steady returns. They are less volatile and, hence, less risky compared to equity funds. Debt mutual funds primarily invest in fixed-interest generating securities like corporate bonds, government securities, treasury bills, commercial paper and other money market instruments. Currently, the 1, 3, 5-year market return is around 6.5, 8 and 7.5 percent, respectively.

9. **RBI Taxable Bonds:** It had decided by the Government of India to issue 7.75% Savings (Taxable) Bonds, 2018 with effect from January 10, 2018, in terms of GoI notification F. No. 4 (28) – W & M / 2017 dated January 03, 2018. These bonds come with a tenure of 7 years. There is no maximum limit for investment in the Bonds. According to age, these bonds have locking periods for withdrawal. The Bonds held to the credit of Bonds Ledger Account of an investor do not transferable.
10. **National Pension System:** The National Pension System (NPS) is a long term retirement - focused investment product managed by the Pension Fund Regulatory and Development Authority (PFRDA). NPS provides two types of accounts - Tier I and Tier II. Tier I is a non-withdrawable account till retirement and is meant for savings for retirement while in Tier II accounts the subscriber is free to withdraw savings whenever he wishes. Tier II account is like a voluntary savings facility. In terms of income-tax benefits, contribution by government employees under Tier-II of NPS is covered under Section 80C for deduction up to Rs. 1.50 Lakh, provided that there is a lock-in period of 3 years. The minimum annual (April - March) contribution for an NPS Tier-1 account to remain active has been reduced from Rs 6,000 to Rs. 1,000. It is a mix of equity, fixed deposits, corporate bonds, liquid funds and government funds, among others. Based on investor risk appetite, an investor can decide how much money can be invested in equities through NPS.

So on the basis of the above methods or schemes, an investor can invest their money. Now it is necessary to understand more about the systematic investment plan (SIP).

How does SIP work?

A SIP is an easy and flexible investment plan. The money is auto-debited from the investor's bank account and invested in a specific mutual fund scheme. The investor is allocated a certain number of units based on the ongoing market rate (called NAV or net asset value) for the day.

Every time investor invests money, additional units of the scheme are purchased at the market rate and added to the investor's account. Hence, units are bought at different rates and investors benefit from Rupee-Cost Averaging and the Power of Compounding.

Rupee-Cost averaging

With volatile markets, most investors remain skeptical about the best time to invest and try to 'time' their entry into the market. Rupee-cost averaging allows an investor to opt out of the guessing game. Since the investor is a regular investor, investor's money fetches more units when the price is low and lesser when the price is high. During a volatile period, it may allow the investor to achieve a lower average cost per unit.

Power of Compounding

Albert Einstein once said, "Compound interest is the eighth wonder of the world. He, who understands it, earns it... he who doesn't... pays it." The rule for compounding is simple - The sooner you start investing; the more time your money has to grow.

TABLE 3: SWOT ANALYSIS OF SYSTEMATIC INVESTMENT PLAN (SIP)

Strengths	Weaknesses	Opportunity	Threat
1. In Systematic Investment Plan (SIP) one can invest a very small amount as their convenience. SIP reduces the average cost. 2. SIP helps to avail the power of compounding. 3. SIP avoids the pitfalls of market timings. 4. SIP makes one present in the market over a period of time. 5. SIP helps to accumulate wealth in a disciplined manner by rupee cost averaging.	1. In SIP Companies charge entry and exit fees. 2. The same amount of money is to be invested at a regular interval over a period of a specified time span.	1. The emphasis on averaging out in a SIP makes it more useful in case of an equity fund. 2. As the volatility is greater, a SIP is useful for a debt fund as well to build a pool of savings. 3. In the long run investment, SIP can give higher returns.	1. SIP is totally market-based so there is a threat of risk of loss. 2. As a comparison to the long term, the short time investment does not give proper return to the investors.

9.0 FINDINGS

A systematic investment plan is a fully hassle free investment. A small number of the amount is allowed to invest in a systematic investment plan and it is a big opportunity for small and medium income group category's investor. The investor always wants to get a higher return at a minimum risk. For this purpose, investors or people use the internet to be aware of the mutual fund so that their investment become more effective. In other words, the maximum investors are using the internet for any kinds of information about the mutual fund whereas in the second stage people use Television, and then broker intermediaries and newspaper. Most of the Investors perception is direct equity investment is riskier than the mutual fund investment and remaining respondent accepted. Those investors have no depth knowledge about the risky asset and how to operate, these investors also can get the opportunity to invest in a systematic investment plan. Basically, most of all investor in a mutual fund make their investment for a specific objective such as retirement plan, marriage, child education, buy car or property etc. Maximum investor motivates to invest in mutual fund SIP because Mutual funds SIP gives to the investor a good number long term return and its Cost averaging process. The selection of a debt or equity plan depends on the client's age. If the client is young they prefer debt plan but as their experience in investing increases year by year, they start to prefer an equity plan.

10.0 SUGGESTIONS

- Dealers can create more awareness regarding SIP to increase investor's attitude towards SIP.
- Dealers can have a friendly approach with investors to promote investor's decision making power on mutual funds.
- Investor education is a very important factor for investors. Research and awareness programmers' should be conducted for investors. Seminars, conferences and training programs should be arranged for this purpose. Adequate publicity through newspapers, magazines, T.V., radio, pamphlets and brochures should be done.
- More awareness about SIP can be made to the general public through advertisements promotional programmes etc.
- More awareness programme to be given to low-income groups (up to 10000) to promote investment in mutual fund through SIP.
- More awareness programme to be given to lower education level people (That is Higher Secondary, SSLC and Below SSLC).
- Proper guidelines must be provided to Business, agricultural people for improving their awareness regarding investments.

11.0 CONCLUSION

The study was based on the awareness of investment opportunities in mutual funds – with special significance on SIP. On the basis of this study, I can conclude that 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. As a comparison to other methods or schemes, SIP is much better to others. SIP hedges the investor from market instability and derives maximum benefit as the investment is done at a regular basis irrespective of market conditions. SIP is a feature specially designed for investors who wish to invest small amounts on a regular basis to build wealth over the long term. It inculcates the habit of regular savings and does not encourage timing and speculation in the markets. The study would be helpful for the small investors by entering into capital market by using the Systematic investment plan. Like every investment avenue, SIP also suffers from various disadvantages but it still seems to be one of the best investment option available to a long term investor especially First-time investors, Salaried people etc.

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