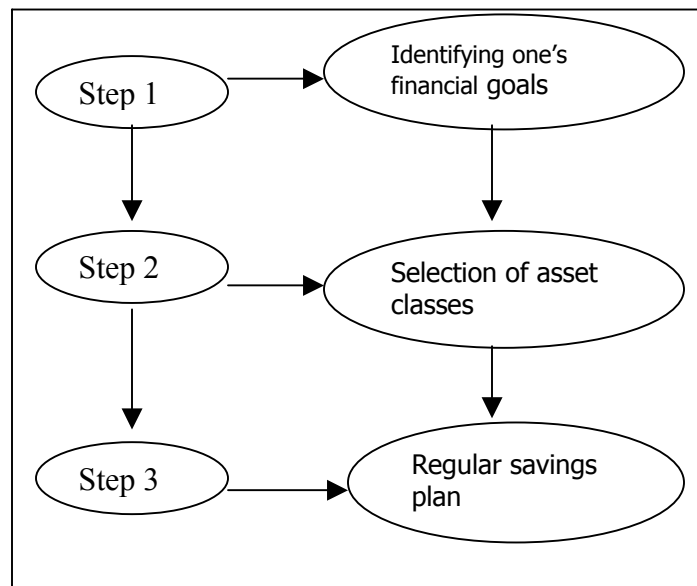


## ✓ Investment - The basics

We can define investment as the process of "Sacrificing something now for the prospect of gaining something later". The definition implies that there are three dimensions of an investment-time, today's sacrifice and prospective gain. Investment is a three-step process.



### **For example,**

If Mr. X's monthly consumption expenditure is Rs 20,000 today and he wants to maintain the same standard of living when he retires. **What sum he will require if he is 30-year-old now?** Assuming five percent inflation he would need Rs 78,400 a month when he retires at 58. Now to earn this amount every month from investment that earn 5 percent a year, he would need to have saved Rs 1.88 Crore when he retires.

If he can put aside 20,000 a month he can just invest them in bonds that earn 5 percent and reach the target in most non-volatile manner. At the other extreme, he could invest just Rs 4166 every month in equities. Assuming 15 per cent returns this should generate the desired Rs 1.8 Crore. Actually real strategy should be to take a middle path between these two extremes and allocate some portion of portfolio to both based on your own financial situation and risk taking ability.

Taking a cue from the above example **systematic investment plan** is the one, which helps in achieving financial goal of an individual.

## ✓ What is a Systematic Investment Plan?

Systematic Investment Plan (SIP) is a disciplined way of investing, where you invest fixed amounts at a regular frequency. You often decide to start saving and investing regularly, but get caught up in your day-to-day activities and forget investments. SIP, the time-tested investment approach helps bring in the much-needed discipline, and has shown good results the world over.

## ✓ Benefits of SIP

- Rupee cost averaging
- Power of compounding
- Makes Investment a habit
- Low Cost (No entry load)

## ✓ Rupee Cost Averaging

X and Y who are on a trip to a riverbank decide to test their swimming skills. X dives deep into the water, kicks his legs, splashes the water, stroke hard, shows all his skill to move faster than the current of the water. Y decides just to remain afloat and allow the stream to take him along with it. In the end, to your surprise you find that Y has covered more distance than X.

The same applies to equity market also; most of us try to **time the market perfectly**. But, this is difficult at best given the volatility of the stock markets. Unfortunately, it is impossible to consistently predict the markets and even experienced investment professionals find it hazardous to do so. Nevertheless, there is a proven investment strategy that can help you offset the volatility of the markets and turn it into an advantage. This strategy is called Rupee Cost Averaging. Below is the example to explain how it works under systematic investment plan:

Month	Amount Invested (Rs)	Fluctuating Market		Rising Market		Falling Market	
		Price	Units	Price	Units	Price	Units
1	2,000.00	12.00	166.67	12.00	166.67	12.00	166.67
2	2,000.00	15.00	133.33	14.00	142.86	10.00	200.00
3	2,000.00	9.00	222.22	16.00	125.00	8.00	250.00
4	2,000.00	15.00	133.33	18.00	111.11	6.00	333.33
Total	8,000.00	51.00	655.56	60.00	545.64	36.00	950.00
Average cost per unit		Rs. 12.20(i.e. Rs. 8000/ 655.55 units)		Rs. 14.66(i.e. Rs. 8000/ 545.63 units)		Rs 8.42(i.e.Rs. 8000/950.00 units)	

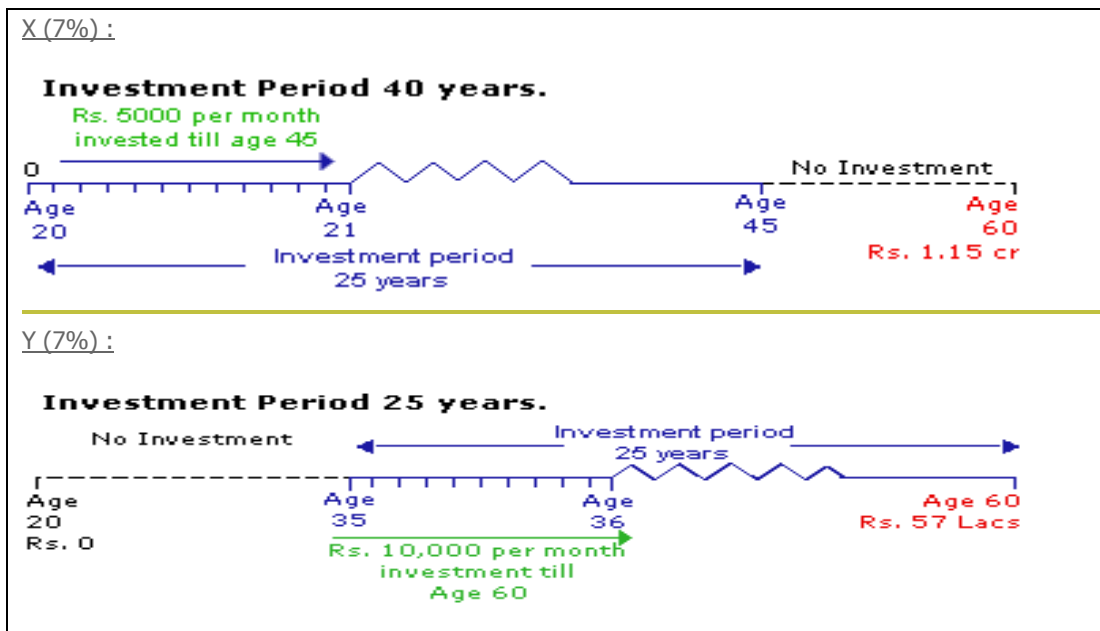
Simply put, Rupee Cost Averaging is a disciplined investment practice that takes the guesswork out of "timing" the markets. The essence of this strategy is that more units are purchased automatically when prices are low and fewer units when prices are high. Over time, this result in the average cost per unit - the money you pay - being lower than the average price per unit.

## ✓ Power of compounding

Inflation can steadily erode the value of your income. However, long-term investing can provide returns that outpace inflation-through the power of compounding.

Year after year, any money that you invest may earn interest, dividends, or capital gains. When you reinvest those earnings, they help generate additional earnings; those additional earnings help generate more earnings, and so on. This is called **compounding**.

Let us take an example, two friends, X, and Y are 20 years old. X decides that he wants to start investing his money early to build himself a secure future and decides to save Rs. 5,000 monthly (i.e. Rs. 60,000 per annum) at the age of 20. Y feels that he is young and wants to enjoy his money for the time being. Y wakes up late and decides to invest at the age of 35 years and decides to save Rs. 10,000 per month (i.e. Rs. 1,20,000 per annum). At the age of 60 years when they want to retire, using an interest rate of 7% per annum, X who had invested Rs. 5,000 monthly for 25 years has Rs. 1.15 cr. and Y who had invested Rs. 10,000 monthly for the same amount of time has Rs. 57 lacs. Please refer to the illustrations below for a better understanding.

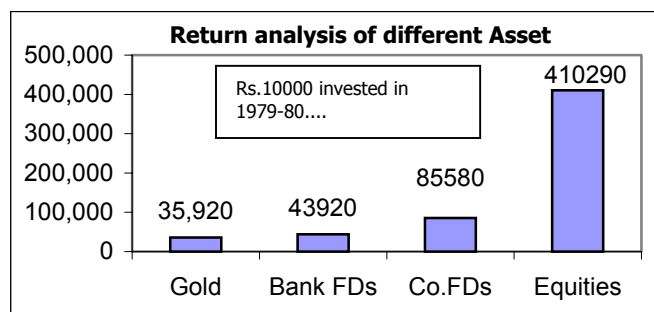


The key therefore lies in **starting earlier**, and giving your investments a longer time to row. Money starts multiplying, more towards the end as explained by above example.

## ✓ Why Equity

Need	Asset Class
Long Term Needs	Long Term Instruments-Equity
Medium Term Needs	Medium Term Instruments-Debt
Short Term Needs	Short Term Instruments-Liquid asset and FD's

It has historically been proved that over long run equities give the highest return of all asset classes, which has been substantiated by the Figure given below. Ideally investing horizon should match the asset class so someone investing in equities should have long-term investment perspective.



## ✓ Does SIP work...?

Given below are some examples of how a SIP has worked in select Mutual Funds schemes:

	Templeton Schemes			HDFC Schemes	
	Blue-chip Fund	Prima Fund	Growth Fund	Equity Fund	Top 200
<b>Monthly Investment</b>	1000	1000	1000	1000	1000
<b>Nos of Investment months</b>	86	123	89	110	91
<b>Total Investment</b>	86000	123000	89000	110000	91000
<b>Value of Investment</b>	337410	549558	249501	518895	267978
<b>Return on Investment</b>	37.69%	27.45%	27.23%	33%	29%

### It is time and not the timing that matters....

#### Disclaimer

We attempt to bring you latest opportunities available in the mutual fund sector in India. We hope the articles and investment options brought to you in these pages enable more informed decision-making. It should not however be viewed as a substitute for professional advice based on the latest legal position and facts and circumstances of each case.