Topic: The functioning of systematic investment plans (SIPs) and their impact on long-term wealth accumulation.

11% of investors stay committed to SIPs beyond 5 years.

But the other 89% say it's not worth the wait.

They exit early, typically within 2 years of the investment.

So, is SIP really worth the hype? And if so, how can you build wealth with it? Let's break it down.

What is an SIP?

A Systematic Investment Plan (SIP) allows you to invest a fixed amount regularly- monthly, weekly, etc. in mutual funds.

Why it works:

• No need to time the market

• Builds discipline

• Buys more when markets dip

But the biggest dilemma of an average retail investor? Greed & fear control their decisions - waiting for the perfect moment to invest.

Here comes putting your money on autopilot and letting it grow quietly through SIP.

When markets go down, your SIP automatically buys more units at a lower price. And when markets rise, the value of your investment grows.

Bottom line? SIPs reward patience—but only if you stay the course.

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But first understand how SIP works.

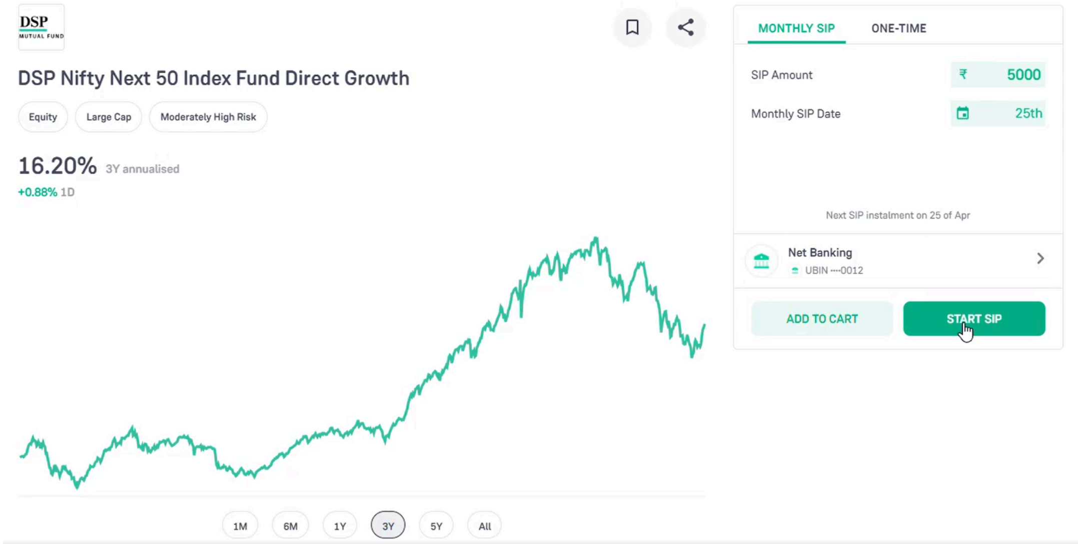
Choose a mutual fund based on your financial goals.

Set a fixed amount you want to invest each month (e.g., ₹5,000).

Every month, on a fixed date, the amount is deducted from your bank account and invested in the mutual fund.

The amount you invested buys units of the fund based on the NAV (Net Asset Value) of that day.

Stay invested & watch your investment benefit from compounding and rupee cost averaging.



While investing in MFs, we feel confused by the jargon like NAV, compounding and rupee cost averaging.

We got you covered.

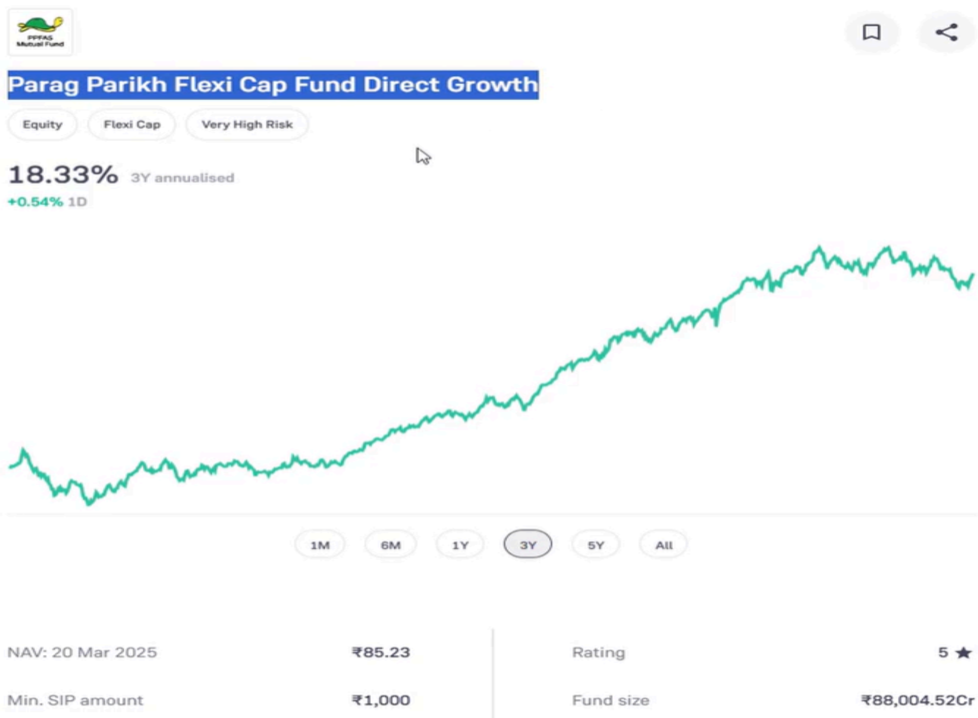
1. (NAV) Net Asset Value

This is the price of 1 unit of a mutual fund.

Think of it like:

• ₹100 NAV = You buy 1 unit for ₹100

• NAV changes daily based on market value



2. Rupee Cost Averaging

Stock market movements are unpredictable, but that doesn't mean your investment journey has to be.

- When prices are low, you buy more units.

- When prices are high, you buy fewer units.

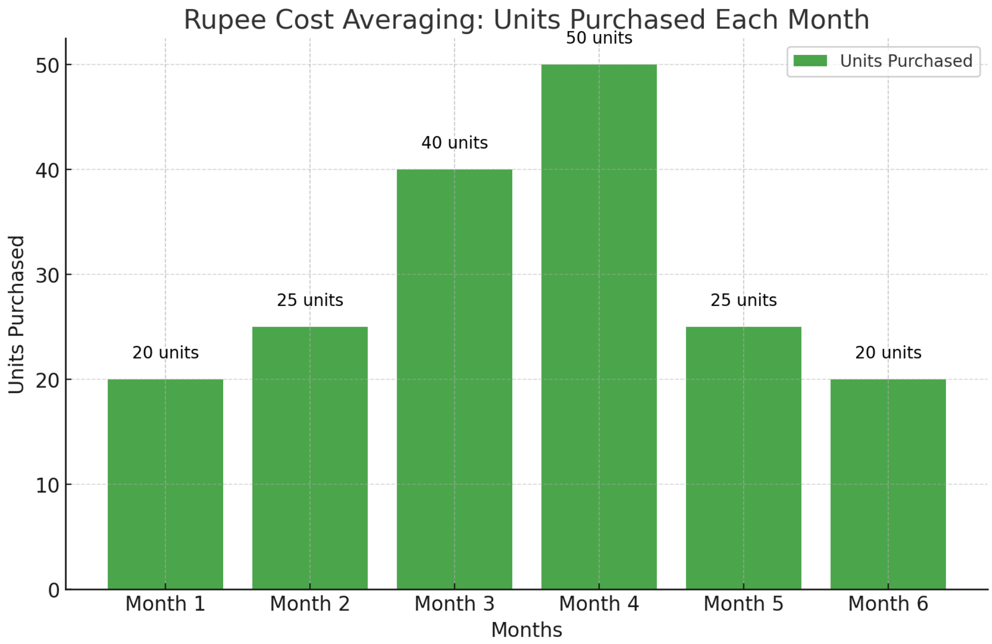
The strategy is called Rupee Cost Averaging, and it helps you build wealth without attempting to predict future market movements.

RUPEE COST AVERAGING					
Payment	Diversified Mutual Fund NAV	Contribution Amount (Rs.)	Units Brought	Units Owned	Total Value
Payment-1	11.00	1,000	90.91	90.91	1,000.00
Payment-2	10.25	1,000	97.56	188.47	1,931.82
Payment-3	10.50	1,000	95.24	283.71	2,978.94
Payment-4	10.75	1,000	93.02	376.73	4,049.86
Payment-5	11.00	1,000	90.91	467.64	5,144.05
Payment-6	9.50	1,000	105.26	572.90	5,442.58
Payment-7	9.75	1,000	102.56	675.47	6,585.81
Payment-8	10.50	1,000	95.24	770.71	8,092.41
Payment-9	10.75	1,000	93.02	863.73	9,285.09
Payment-10	12.00	1,000	83.33	947.06	11,364.75
	Rupee Cost Average	Total Contribution	Total Units Brought	Investment Value	Profit/Loss
	10.60	10,000	947.06	10,039	39

So, Instead of trying to predict the market, you let time and consistency work in your favour.

Let's understand it better with the help of an example.

- Month 1: ₹1,000 invested at ₹50 NAV = 20 units
- Month 2: ₹1,000 invested at ₹40 NAV = 25 units
- Month 3: ₹1,000 invested at ₹25 NAV = 40 units
- Month 4: ₹1,000 invested at ₹20 NAV = 50 units
- Month 5: ₹1,000 invested at ₹40 NAV = 25 units
- Month 6: ₹1,000 invested at ₹50 NAV = 20 units



"So, after 6 months, your total investment would amount to 6,000, and the total units purchased would be 180 units.

Then, the average purchase price becomes the total investment / Units Purchased.

Therefore, Average Purchase Price: ₹33.33

More units are purchased when the NAV is lower and fewer units when the NAV is higher.

3. The Power of Compounding

Instead of worrying about market highs and lows, SIPs help you invest consistently.

The longer you stay invested, the more your money grows, this is the power of compounding.

Where your invested money earns returns, and those returns are reinvested to generate even more returns over time.

SIPs come in different forms, each designed for specific financial goals.

Let's break it down:

1. Fixed vs. Flexible SIP

2. Monthly vs. Quarterly SIP

Fixed SIP

In Fixed SIP, you invest a pre-determined fixed amount at regular intervals (e.g., ₹5,000 per month).

The amount doesn't change regardless of market conditions.

Ideal for beginners or those who prefer a disciplined approach.

But why does this strategy work well over time?

Here comes the Rupee Cost Averaging (RCA), which buys more units when prices(NAV) are low and fewer when prices are high.

Month	Investment (in Rs)	NAV (in Rs)	Units purchased
1st Month	5,000	10	500
2nd Month	5,000	9	555.56
3rd Month	5,000	11	454.54
4th Month	5,000	9.5	526.31
5th Month	5,000	8.5	588.23

Flexible SIP

In Flexible SIP, you have the freedom to increase, decrease, or even skip investments based on your cash flow.

Unlike Fixed SIP, where the amount remains constant, Flexible SIP allows you to adjust your contributions as per your financial situation.

Month	Market Condition	NAV (₹)	Amount Invested	Units Purchased
January	Normal	50	₹2,000	40
February	Market dips 📉	40	₹4,000 (invest more)	100
March	Market dips 📉	30	₹5,000 (invest more)	166.67
April	Market starts recovering 📈	35	₹3,000	85.71
May	Market stabilizes	40	₹2,000 (back to normal)	50
June	Market at peak 📈	50	₹2,000 (minimum)	40

What makes it better? Some funds let you link your SIP amount to market performance—meaning you can invest more when markets fall and less when they rise, maximizing your returns over time.

Who benefits the most from this?

It's an excellent option for freelancers, business owners, or anyone with an irregular income, ensuring that market opportunities aren't missed, even when cash flow isn't steady.

Monthly SIP

You invest a fixed/flexible amount every month on a pre-decided date.

Why is it the most preferred SIP mode? Simply because it aligns perfectly with monthly salary cycles, making it easy for investors to stay consistent without overthinking their investments.

Who is it best for? It's an ideal choice for salaried professionals who receive a fixed income every month and want to build wealth without the stress of market timing.

What’s the biggest advantage? Better Rupee Cost Averaging! Since you’re investing more frequently, your money automatically buys more units when prices drop and fewer when prices rise, maximize long-term gains.

Quarterly SIP

Instead of investing every month, a Quarterly SIP lets you invest once every three months.

Who is it best suited for? Ideal for business owners, freelancers, or those with an inconsistent income, as it provides the flexibility to invest without the pressure of monthly commitments.

This method reduces the strain of monthly deductions while still keeping investments consistent.

SIP vs. Lump Sum Investing, Which Works Better?

While SIP allows you to invest a fixed amount regularly, a lump sum investment is a one-time commitment where you invest a large amount in a Mutual Fund scheme all at once.

With SIPs, your investments are spread out over time, benefiting from Rupee Cost Averaging.

On the other hand, lump sum investing works best when you have a large amount ready and a strong understanding of market trends.

Why SIP is powerful?

SIP is a long-term play process, NOT a Product.

SIP ensures you invest consistently, without second-guessing every move.

Let’s be honest—when markets crash, most people run. SIP, however, does the opposite. It keeps buying even when prices are low, setting you up for stronger long-term gains.

SIP flows in the last 9-10 years have grown at 27% CAGR.

This means the SIP contribution across mutual funds has been increasing exponentially, likely driven by rising financial literacy, higher disposable incomes, and the increasing preference for equity investments.

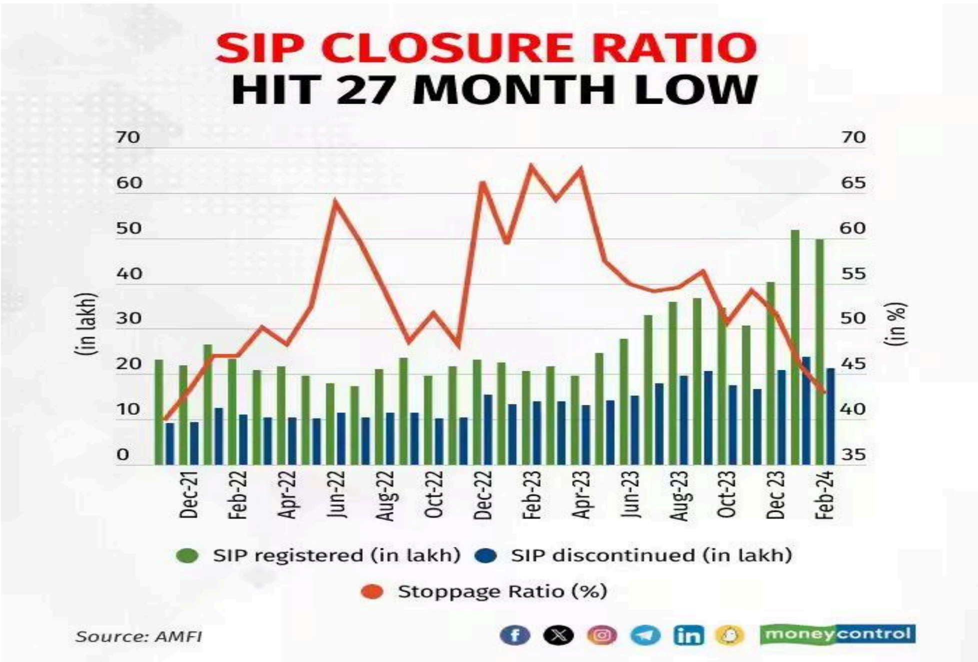
If current trends hold, SIP contributions reaching ₹1 lakh per month industry-wide signifies a mature, financially aware investor base driving the mutual fund sector forward.

SIP Participation Rates and Average Investment Size in India:

The stoppage ratio has significantly **declined**, reaching its lowest point in 27 months.

This means **fewer investors are stopping their SIPs**, showing increased confidence in long-term investing.

The number of new SIPs registered has been increasing, especially after mid-2023, with an Average Monthly SIP Contribution of ₹2,500.



SIP Participation 401(k) Plan Participation Rates in the U.S.

81% of eligible employees take advantage of a 401(k) plan.

How much do employees contribute? On average, employees set aside 7.4% of their salary. but it doesn’t stop there—employers typically add another 4.6% through matching contributions, bringing the total savings rate to approximately 12% of salary.

Do higher earners save more? Yes. Those earning over $150,000 per year contribute at a much higher rate, averaging around 10% of their salary, making the most of tax advantages and compounding growth.

SIP Performance Across Different Market Cycles

If someone starts investing at a market peak, staying invested for the long term helps smooth out market fluctuations and generate strong returns over time.

Let’s understand it with an example:

If someone started investing ₹10,000 every month in the BSE Sensex TRI (Total Return Index) starting from January 2008—which was the peak of a market cycle (meaning stock prices were quite high at that time).

Then continued this investment every month without stopping, up until July 31, 2024.

Over these 16.5 years, they would have invested a total of ₹19.9 lakh.

Despite starting at a market high, their investment has grown to ₹74.7 lakh as of July 2024.

This means their money has almost quadrupled over this period at an XIRR (extended internal rate of return) of 14.4 per cent.

Demographic Trends in SIP Adoption in India

Younger investors, particularly millennials, are increasingly adopting SIPs, attracted by the ease of digital platforms and financial literacy initiatives.

Middle-income groups dominate SIP investments, leveraging the affordability and flexibility of SIPs.

Urban centres lead in SIP adoption; however, regulatory initiatives aim to penetrate rural markets by lowering the minimum SIP amount to ₹250, enhancing financial inclusion.

SIP Returns vs. 401(k) Plans US Retirement Schemes

While both aim for long-term wealth accumulation, 401(k) plans offer structured retirement benefits, whereas SIPs provide flexible investment options without a specific retirement focus.

Average annual return of 401(k) 9.7% over five years ending in 2023, with benefits of employer matching and tax advantages.

While it is impossible to predict exact market peaks and bottoms consistently
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But, if you are a genuine long-term SIP investor, you don’t need to worry about market peaks and bottoms when starting your SIP journey.

Instead, your focus should be on your exit strategy as you approach your financial goals.

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