International Journal of Commerce and Business Management
Volume 7 | Issue 1 | April, 2014 | 158-161

A REVIEW

Assets creation by systematic investment plan

LEELAWATI AND SHWETA AGRAWAL

Received : *10.02.2014;* **Accepted :** *22.03.2014*

ABSTRACT

In growing India Banking industry is playing an important and active role in the economic development. If the banking system in a country is effective, efficient and disciplined it brings about a rapid growth in the various sectors of the economy. India is a country where people of all income backgrounds are living. People from different income background are interested in different types of investment pattern. Like rich people are keen to invest in gold, land and other capital intensive investment. But in India more than half population is belong to middle class and they also want to save their future by building a strong monetary background. SIP is a way to promote those investors who have low income pattern and does not invest huge fixed or lump sum amount in one time. By this systematic investment plan investors commit to investing a fixed amount on regular interval. SIP works on the principle of regular investments. It is like your recurring deposit where you put in a small amount every month. It allows you to invest in a MF by making smaller periodic investments (monthly or quarterly) in place of a heavy one-time investment *i.e.* SIP allows you to pay 10 periodic investments of Rs 500 each in place of a one-time investment of Rs 5,000 in an MF. Thus, you can invest in an MF without altering your other financial liabilities. It is imperative to understand the concept of rupee cost averaging and the power of compounding to better appreciate the working of SIPs.

KEY WORDS : Investment, Mutual fund, Opportunities, Systematic investment plan

How to cite this paper : Leelawati and Agrawal, Shweta (2014). Assets creation by systematic investment plan. *Internat. J. Com. & Bus. Manage*, **7**(1) : 158-161.

Systematic Investment Plan or SIP is a disciplined way of investing one's money in order to take advantage of the volatility in the market, and thus drawing maximum benefit out of our investments over a longer period of time. In it an investor invests a pre- specified amount in a scheme at pre-specified intervals at the then prevailing NAV. By investing through this route the investor actually ends up with more number of units and hence can get more returns whenever he disposes them off. This happens due to the reduction in average cost of each unit of the scheme that is purchased. Before the working and mechanism of SIP we want to coined a story *i.e.* "The Case of Chinese Bamboo"

MEMBERS OF THE RESEARCH FORUM

Correspondence to:
LEELAWATI, Department of Management, Sacred Heart Degree College, Napilapur, SITAPUR (U.P.) INDIA
Email: leelawati.mba@gmail.com

Authors' affiliations:
SHWETA AGRAWAL, Department of Commerce, Sacred Heart Degree College, Napilapur, SITAPUR (U.P.) INDIA
Email: shweta.shdc@gmail.com

It's the story of Ganesh, the farmer, who used to live in a small village and used to earn very little. Once upon a time a very renowned wise man visited his village. Ganesh thought to visit him and seek some advice from him about his meagre income. The wise man advised him to cultivate Chinese Bamboo. He had never heard about it before, but he went on to cultivate it.

He planted a little seed, watered it and fertilized it for a whole year. But, nothing seemed to happen. The next year he again watered it and fertilized it, but to his dismay nothing happened again. The third year the same thing happened and he got very discouraged. He thought that he has been mislead by that wise man. But, he still watered it for the fifth year. This time to his amazement, the bamboo tree sprouted and grew ninety feets in 6 weeks. This way the poor Ganesh became a rich man and all his woes came to an end. This story is similar to SIP. This plan helps you to make a sound monetary background.

Working and mechanism of SIP:

An SIP allows you to take part in the stock market without trying to second-guess its movements. An SIP means you commit yourself to investing a fixed amount every month. Let's say it is Rs 1,000. When the Market price of shares fall, the investor benefits by purchasing more units; and is protected by purchasing less when the price rise.

Now check out how small investment made at a regular intervals can grow to a large figure over a period of time due to power of compounding.

For this an example is belowby which weanalysis the behaviour of portfolio for an investor *i.e.* Ajay, who invested 4000 Rs. Monthly in ICICI Prudential Top 100 fund (G).

Table 1: Mode: Monthly investment Rs. 4000 through SIP

Fund name- ICICI Prudential Top 100 fund (G)	
Investment period	Jan 01, 2009 to Dec 01, 2013
No. of investments	60
Total amount invested (Rs.)	240,000.00
Total units purchased	1,946.15
Investment value as on Dec 01, 2013	324,754.8
Latest NAV	165.68000 (as on Feb 07, 2014)

Table 1 mentioned that when the market price of shares fall, the investor benefits by purchasing more units; and is protected by purchasing less when the price rise. According to above data we can analysis the growth of investors in five years.

Opportunity cost saved by an investor:

Opportunity cost is the cost of a foregone alternative. If you chose one alternative over another, then the cost of choosing that alternative is an opportunity cost. Opportunity cost is the benefits you lose by choosing one alternative over another one. The opportunity cost of choosing one investment over another one. The term opportunity cost is often used in finance and economics when trying to choose one investment, either financial or capital, over another. It is a measure of any economic choice as compared to the next best one.Through the SIP route the investor saves upon the opportunity cost of investing the balance amount into some other investment areas

Hence, the investor saves on approximately Rs.275 per year as opportunity cost. However, if he had invested the whole Rs.12000 in one go then the above gain would have been lost. Hence, if we look at the volatility in equity markets and then compare it with the concept of systematic Investment Plans, we reach this conclusion that in order to build a steady flow of income in the future it's necessary to keep investing regularly over a period of time, in order to eliminate the effects of market volatilities.

Features of systematic investment plan (SIP):

–Makes market timing irrelevant.

Table 2 : SIP investment returns (CAGR*):12.42%

Investment date	Investment amount (Rs)	Purchase price (Rs.)	Units purchased
Jan 01, 2009	4000	72.010	55.548
Feb 02, 2009	4000	67.450	59.303
Mar 02, 2009	4000	65.670	60.911
Apr 01, 2009	4000	73.750	54.237
May04, 2009	4000	85.920	46.555
Jun 01, 2009	4000	100.860	39.659
July 01, 2009	4000	99.210	40.319
Aug 03, 2009	4000	106.930	37.408
Sep 01, 2009	4000	106.810	37.450
Oct 01, 2009	4000	116.740	34.264
Nov 03, 2009	4000	108.450	36.883
Dec 01, 2009	4000	120.170	33.286
Jan 04, 2010	4000	123.040	32.510
Feb 01, 2010	4000	116.660	34.288
Mar 02, 2010	4000	118.970	33.622
Apr 01, 2010	4000	125.530	31.865
May 03, 2010	4000	123.510	32.386
Jun 01, 2010	4000	118.420	33.778
July 01, 2010	4000	123.680	32.342
Aug 02, 2010	4000	129.930	30.786
Sep 01, 2010	4000	129.690	30.843
Oct 01, 2010	4000	143.290	27.915
Nov 01, 2010	4000	143.310	27.912
Dec 01, 2010	4000	140.310	28.508
Jan 03, 2011	4000	145.180	27.552
Feb 01, 2011	4000	130.360	30.684
Mar 01, 2011	4000	133.040	30.066
Apr 01, 2011	4000	138.980	28.781
May 02, 2011	4000	137.790	29.030
Jun 01, 2011	4000	135.160	29.595
July 01, 2011	4000	134.990	29.632
Aug 01, 2011	4000	133.520	29.958
Sep 02, 2011	4000	121.440	32.938
Oct 03, 2011	4000	117.230	34.121
Nov 01, 2011	4000	127.750	31.311
Dec 01, 2011	4000	123.530	32.381
Jan 02, 2012	4000	115.970	34.492
Feb 01, 2012	4000	133.410	29.983
Mar 01, 2012	4000	137.190	29.157

Table 2: Contd……….

Table 2: Contd….

Apr 02, 2012	4000	137.510	29.089
May 02, 2012	4000	135.640	29.490
Jun 01, 2012	4000	128.060	31.235
Jul 02, 2012	4000	137.290	29.135
Aug 01, 2012	4000	136.220	29.364
Sep 03, 2012	4000	135.330	29.557
Oct 03, 2012	4000	145.920	27.412
Nov 01, 2012	4000	145.270	27.535
Dec 03, 2012	4000	151.030	26.485
Jan 01, 2013	4000	154.300	25.924
Feb 01, 2013	4000	158.280	25.272
Mar 01, 2013	4000	148.710	26.898
Apr 01, 2013	4000	146.900	27.229
May 02, 2013	4000	151.820	26.347
Jun 03, 2013	4000	149.280	26.795
Jul 01, 2013	4000	147.470	27.124
Aug 01, 2013	4000	143.580	27.859
Sep 02, 2013	4000	147.230	27.168
Oct 01, 2013	4000	153.160	26.116
Nov 01, 2013	4000	167.430	23.891
Dec 02, 2013	4000	166.870	23.971

–Helps one build for the future.
–Compounds returns.
–Light on the wallet.
–Saving for different investment goals.
–Opportunity cost saved by the investor.

Market timing irrelevant:

Most investors want to buy stocks when the prices are low and sell them when prices are high. But timing the market is time consuming and risky and involves lots of element of judgment. A more successful investment strategy is to adopt the method called Rupee-Cost Averaging.

The power of compounding:

The power of compounding is involves nothing but the concept of Future value of Annuities. An annuity is a series of equal payments or receipts that occur at evenly spaced intervals. Leases and rental payments are examples. The formula for calculating this future value is given by:

FV = PMT [{(I + I)" - I} / i]

where,

FV = Future value of an annuity
PMT = Amount of each payment
i = Interest rate per period
n = Number of periods.

Just to illustrate by the example:

Consider investing Rs.5000 at the end of every year for the next 5 years. Let the compounded annualized return be 6 per cent. Thus, we will accumulate Rs. 28,185.46 at the end of 5 years. The following calculations show the results.

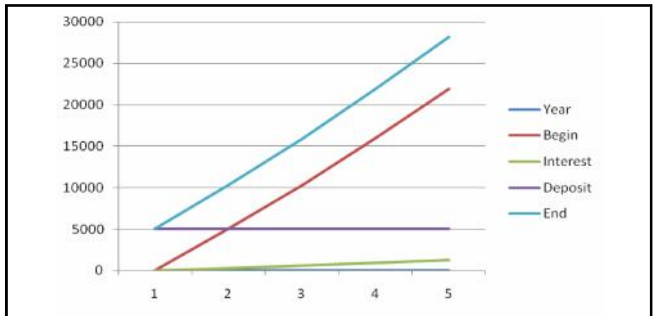

Fig. 1 : Illustration by the example

From we can see, that, when an amount of Rs. 5000 is deposited at the end of every year. In it the previous year's interest is also added to the accrued amount till that period to get the interest of the next year, thus, giving a compounded return.

Objective of study:

–To understand the working of systematic investment plan.
–To provide the information to small investors so that they can make a strong monetary background.

Hypothesis:

H_0: There is a significant role of SIP for wealth creation.
H_1: There is no significant role of SIP for wealth creation.

The study is based on the social and financial research. In this paper we have used available facts or information to analyze the factors and evaluation of the data. It's a descriptive type of research design.

Sources of data:

This study is purely based on secondary data such as annual reports, magazines, books, newspapers, banks website.

SIP works on the principle of regular investments and brings the power of compounding to your forth. It removes tensions and uncertainty from your investment plan by making it a mechanical boring process. It inculcates the habit of regular savings and does not encourage timing and speculation in the markets. All these are correct and accepted facts. But, don't forget that SIP is just another method of investing, it is a vehicle not the final destination - it may pass through straight road or bumpy roads - it may lead you to your destination is a lesser or sometimes higher time frame - and sometimes it may even not lead you to your destination by derailing your plan. SIP is just a method of getting on to the investment vehicle to reach your destination - if the vehicle you choose is incorrect - whichever method you may get in- there is less likelihood of you reaching your destination. Therefore, the next time when a mutual fund or distributor or financial planner advises you that SIPs are the safest route to invest in equities then remember that they are not telling lies - it is safest route but not for you the investor but for their own selves. As almost everything here – the conclusion is for you to decide. This might work very well for one person, but may not work at all for another. Just keep these factors in mind, while making a decision.

Suggestion:

According to government should promote systematic investment planspecially for people of rural areas those who do not have more income for wealth creation.

WEBLIOGRAPHY

www.canararobeco.com.

www.moneycontrol.com.

www.bseindia.com.

www.nseindia.com.

www.wikipedia.com.

www.reliancemutualcom.