MUTUAL FUNDS: SYSTEMATIC INVESTMENT PLAN

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Abstract:
Systematic Investment Plan (SIP) has emerged as an alternative investment plan for large number of investors interested in high returns but less risk with investments in instalments. The purpose of the study is to find out the motivating factor to invest in systematic investment plan and the problem in this scheme. Data have been collected from Secondary sources. Collected data were analysed using various statistical tools. 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 operational platform is one of the main barrier that investor are facing of scheme.

Keywords: Systematic Investment Plan, Investor, High Return, Risk, Investment, Installments

I. INTRODUCTION:
A mutual fund is a trust that pools the savings of a number of investors who share common financial goal. The money thus collected is invested in the capital market such as shares, debentures and other securities. The income earned through and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. The plan of investing the same amount of money every month over an extended period of time regardless of whether the market is up or down is known as Systematic Investment Plan. Systematic Investment Plan is an investment strategy wherein an investor needs to invest the same amount of money in a particular mutual fund at every stipulated time period. Investing in SIP enables an investor to take part in the stock markets without actively timing them and he/she can benefit by buying more units when the price falls and less units when the price rises.

II. REVIEW OF LITERATURE:
Mutual funds over the years have gained immensely in their popularity. Apart from the many advantages that investing in mutual funds provide like diversification, professional management, the ease of investment process has proved to be a major enabling factor. However, with the introduction of innovative products, the world of mutual funds nowadays has a lot to offer to its investors. With the introduction of diverse options, investors needs to choose a mutual fund that meets his risk acceptance and his risk capacity levels and has similar investment objectives as the investors. (Systematic Investment Plan by CNBC NETWORK TV) (Deepa Venkatraghaven CNBC TV 18 2012 1st Edition)

SIP is Systematic Investment Plan which is very helpful to salaried and middle class men. They can invest their savings into Systematic Investment Plan and collect huge funds for future. SIP is paid in monthly or quarterly as per the scheme. Opting SIP an investor can invest their savings into it and can save is money doing that. SIP is good because if it seems that market will goes down in few days so investor can safely withdraw his money and can save his money. (Ranganatham & Madhumathi)

Rupee Cost Averaging is an investment technique applied to regular fixed instalments in a mutual fund scheme. As the amount is fixed and regular, more units are bought when the market price of shares is low and lesser units are bought when the price is high. For Example: A person invests Rs.1000 for ten months in SIP. We will...
find out that the actual average purchase cost of asset would be lower than the average NAV of his investment over 10 months, which is the key benefit of Rupee Cost Averaging. Actual average purchase cost as per SIP = \((1000 \times 10) / (100+200+67+50+45+40+37+34) = 14.06.\) (JOURNAL 2&3)

The invested money can be utilised in 3 types of markets:
1. Equity Market
2. Debt Market
3. Money Market (Journal 1)

**Working of SIP**

Let us take an example to understand how an SIP works. Suppose Mr. X decides to invest in a mutual fund through SIP, he commits making a monthly income of Rs 1000 for a period of 12 months starting Jan 1 2017 in a mutual fund named ABC. The payments can be done by issuing 12 post dated cheques of Rs 1000 each or through ECS facility. (Sunder Shankaran) Vision Book

<table>
<thead>
<tr>
<th>Date</th>
<th>Monthly Investment (a) (Rs)</th>
<th>NAV (b)</th>
<th>Number of Units (a)(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1- Jan</td>
<td>1000</td>
<td>46.29</td>
<td>21.603</td>
</tr>
<tr>
<td>1-Feb</td>
<td>1000</td>
<td>48.08</td>
<td>20.799</td>
</tr>
<tr>
<td>1-Mar</td>
<td>1000</td>
<td>52.78</td>
<td>18.947</td>
</tr>
<tr>
<td>1-Apr</td>
<td>1000</td>
<td>56.36</td>
<td>17.743</td>
</tr>
<tr>
<td>1-May</td>
<td>1000</td>
<td>58.42</td>
<td>17.117</td>
</tr>
<tr>
<td>1-Jun</td>
<td>1000</td>
<td>56.42</td>
<td>17.723</td>
</tr>
<tr>
<td>1-Jul</td>
<td>1000</td>
<td>62.14</td>
<td>16.093</td>
</tr>
<tr>
<td>1-Aug</td>
<td>1000</td>
<td>67.58</td>
<td>14.797</td>
</tr>
<tr>
<td>1-Sept</td>
<td>1000</td>
<td>71.7</td>
<td>13.947</td>
</tr>
<tr>
<td>1-Oct</td>
<td>1000</td>
<td>76.19</td>
<td>13.125</td>
</tr>
<tr>
<td>1-Nov</td>
<td>1000</td>
<td>83.97</td>
<td>11.909</td>
</tr>
<tr>
<td>1-Dec</td>
<td>1000</td>
<td>89.92</td>
<td>11.121</td>
</tr>
</tbody>
</table>

(Mutual Fund Insight Value Research) (HDFC Mutual Funds Vol No.12)

**Objectives:**
1. To understand the performances of various schemes using various tools to measure the performances.
2. To measure and compare the performance of selected mutual fund schemes of different mutual fund companies and other asset management companies.
3. To analyze the trends in returns of selected mutual funds.
Rationale:
As it is said “Little drops of water make the mighty ocean”. One of the best ways of entering equity market is through Systematic Investment Plans (SIPs) in equity mutual funds, as it brings in an investment discipline for the investor. SIPs help to achieve financial goals by investing small sums of money on a monthly basis that eventually leads to accumulating the required corpus for reaching the goal. This is the new hot thing which can change the scenario of the Indian market as Indians always have believed in savings and the options of SIP let them do that without them having to commit a large sum of money for investment.

Brief Summary:
Monthly Investment: Rs1000
Period of Investment 12 Months (1st Jan 2017-1st Dec 2017)
Total Amount Invested: 12000
Total Number of Units Credited to X: 194.925
Average Cost Per Unit: Rs.61.5621

Benefits to Mr. X:
Convenience and affordability because of an easy payment method.
Helps Mr. X to develop the habit of disciplined investing as he is compiled to fulfill his commitment of making a fixed payment every month.
Rupee Cost Average Benefit: By investing through the SIP route Mr. X receives 194.925 units at an average cost of Rs 61.5621. However had Mr.X invested the whole of Rs 12000 at one go he would have received a different number of units. Suppose Mr.X had invested Rs 12000 on:
January 1 2017 he would receive 259.24 units.
July 1 2017 he would receive 193.11 units.
December 1 2017 je would receive 133.45 units.
Since it is not so simple for anybody to perfectly time the market, it makes a more sensible approach to invest through SIP option (long term say 3-5 years). It actually makes the volatility in the stock markets work for investors. This example helps us to understand how SIP allows Mr.X to take benefits of all highs and lows of the market during this 12 months’ time period. Flexibility to redeem units at any time or making a change in the monthly investment amount.

III. RESEARCH DESIGN:

PROBLEM STATEMENT
- Averaged returns - if you strongly believe (and have some data points) that the market will go up in near future, investing lump sum would be better than SIP, since SIP will average your cost.
- Less control - In a way SIP is a rigid product. You are investing a fixed amount in a fixed Mutual Fund scheme. If you want to change the scheme or the amount, you need to stop the first SIP and start a fresh one.
- Cumbersome returns’ calculation - Every month you are investing at a different price. The standard returns (current price-purchase price) does not make sense for such investments. You need to use XIRR (excel) for calculating the returns and comparing it against other investment options.
Source Data:

<table>
<thead>
<tr>
<th>Month</th>
<th>FY 2018-2019</th>
<th>FY 2017-18</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>7119</td>
<td>4335</td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>6425</td>
<td>4050</td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>6644</td>
<td>4095</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>6222</td>
<td>3973</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>8022</td>
<td>5893</td>
<td>3884</td>
</tr>
<tr>
<td>October</td>
<td>7985</td>
<td>5621</td>
<td>3434</td>
</tr>
<tr>
<td>September</td>
<td>7985</td>
<td>5616</td>
<td>3698</td>
</tr>
<tr>
<td>August</td>
<td>7727</td>
<td>5206</td>
<td>3497</td>
</tr>
<tr>
<td>July</td>
<td>7658</td>
<td>4947</td>
<td>3334</td>
</tr>
<tr>
<td>June</td>
<td>7554</td>
<td>4744</td>
<td>3310</td>
</tr>
<tr>
<td>August</td>
<td>7304</td>
<td>4584</td>
<td>3189</td>
</tr>
<tr>
<td>April</td>
<td>6690</td>
<td>4269</td>
<td>3122</td>
</tr>
<tr>
<td>Total</td>
<td>68479</td>
<td>67190</td>
<td>43921</td>
</tr>
</tbody>
</table>

DATA ANALYTICS TOOLS:

1. Sharpe Ratio

What it indicates?
This ratio shows the return per unit of the total risk taken by the scheme.
How is it calculated?
(Return – risk free return) ÷ standard deviation
Implications for investors:
Compare only within categories. Higher than category average Sharpe ratio indicates that the fund manager was able to generate higher return per unit of total risk.

2. Expense Ratio

What it indicates?
This ratio represents the annual expense the fund will charge the investor. It ranges between 0.1% (for fixed maturity plans) to 3.25% (for small-sized equity funds).
How is it calculated?
Total expenses charged by the fund/average assets under management of the fund.
Implications for investors:
The lower the expense ratio, the better it is for the investor. Since most debt funds generate similar.
3. Portfolio Concentration Ratio

What it indicates?
This ratio shows where and how much has the fund invested.

How is it calculated?
This is usually a percentage of the fund’s top five stocks or sectors.

Implications for investors:
Normal range is 30%-40% for top five stocks and 30%-60% for top five sectors for diversified funds. Investors go to mutual funds for diversification, any undue concentration in its portfolio defeats this.

IV. DATA ANALYSIS AND INTERPRETATION:

Demographic Factors of respondents:
Respondents are classified based on their age. The data are shown in table (5.1) and chart (5.1). Majority of the respondents belongs to the categories of 31-40 years and below 30 years age groups as 231 and 137 numbers of respondents respectively. It shows, that most of the respondents purchase or willing to purchase any mutual fund scheme maximum at the age of 40 years. Less numbers of respondents wants to purchase the mutual fund scheme at the age of 50 years and above.

TABLE 5.1

<table>
<thead>
<tr>
<th>AGE (Years)</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 30</td>
<td>137</td>
<td>30.4</td>
</tr>
<tr>
<td>31-40</td>
<td>231</td>
<td>51.3</td>
</tr>
<tr>
<td>40-50</td>
<td>50</td>
<td>11.1</td>
</tr>
<tr>
<td>Above 50</td>
<td>32</td>
<td>7.1</td>
</tr>
<tr>
<td>Total</td>
<td>450</td>
<td>100</td>
</tr>
</tbody>
</table>

Points scored

- Above 50: 7.1%
- Between 40-50: 11.1%
- Below 30: 30.4%
Gender Wise:
Gender wise classification of the respondents is shown in Table (5.2) and Chart (5.2). Out of 450 respondents from the various regions 71.3% (321) respondents are male and 28.7% (129) respondents are female. The mean value of the 122 gender class is 1.29. The result shows, that male respondent are purchases the mutual funds as compare to female respondent.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>321</td>
<td>71.3</td>
</tr>
<tr>
<td>Female</td>
<td>129</td>
<td>28.7</td>
</tr>
<tr>
<td>Total</td>
<td>450</td>
<td>100</td>
</tr>
</tbody>
</table>

HYPOTHESIS:
EFH should not be confused with EMH – the efficient market hypothesis. Eugene Fama coined the term “efficient market” in his 1960s Ph.D. dissertation, Random Walks in Stock Market Prices. EMH theorists believe that current security prices reflect all available information and that no amount of analysis will improve upon the market’s result. This idea is also important in EFH, but is it not paramount.

Evidence of EMH is clearly evident in mutual fund return databases. Fund managers as a group do not outperform passive market indices in any asset class. See the recent 2011 S&P SPIVA Scorecard for proof. Mutual fund manager returns center on an index before deducting expenses, and the center shifts into negative territory after expenses. This happens in every fund category and every asset class. Active fund returns are a zero sum game before fees, and net of fees, they are a loser’s game.
Let me be clear, believing in EFH or EMH does not mean believing that no actively-managed mutual funds will beat the market. To the contrary, many funds beat their benchmarks each year. The S&P SPIVA Scorecard shows that over a five-year period about 25 percent of surviving equity funds outperform and 15 percent of bond funds outperform. That’s about what one would expect by chance alone based on a normal distribution, net of fund fees.

The S&P SPIVA report states in unabashed language that, “There are no consistent or useful trends to be found in annual active versus passive figures. The only consistent data point we have observed over the five-year horizon is that a majority of active equity and bond managers in most categories lag comparable benchmark indices.”

V. FINDINGS OF THE STUDY:

• A recent report on Mutual Fund Investments in India published by research and analytics firm, Boston Analytics, suggests investors are holding back from putting their money into mutual funds due to their perceived high risk and a lack of information on how mutual funds work. This report is based on a survey of approximately 10,000 respondents in 15 Indian cities and towns as of March, 2010.

• Among the mutual funds, it is expected that debt oriented schemes will continue to dominate the mutual fund industry satisfying the needs of yield security and liquidity fairly well besides being attractive from the tax point of view.

• Investors in cities are gradually awakening to other potential investment areas like equity, mutual funds, apart from the traditional bank fixed deposits, National Savings Certificates from Government of India, gold and real estate.

• When new funds are launched, the returns for first two years are more because of preferential treatment. This is at the expense of other funds in the family. But, these are reaching average returns after two years.

• People prefer open-end schemes to close-end schemes because they can be bought and sold at NAV. It is possible to acquire capital gains by selling at higher NAV and buying at lower NAV.

• Investors are more sensitive to fees as mutual funds have significant preference for low transaction costs.

• Most investors appear to be naïve, with a little knowledge of the investment strategies or financial details of their investments.

• Penetration levels in India are low as compared to other global economies

Suggestions to Mutual Fund Companies:

• Disclosure of Risk: The funds should disclose the level of risk associated with investment in the fund return in offer documents and in comparative levels of returns and risk in the annual reports for the sake of prospective and existing investors.

• Educating the agents: While investing the agents/salesmen should clearly explain the investors all the features both positive as well as negatives associated with a fund. Primarily, the agent/salesmen should first understand the purpose/need for the investment by the investor.

• Simple Terminology: The details both facts and figures should be in plain English and the figures must be explained, for example when Sharpe ratio is mentioned, they should clearly tell it’s significance and how it is related with risk and how to assess(e.g., higher, the ratio, higher the better instrument).

• Regional Languages: The fact books may be printed also in regional languages so that penetration in rural areas may be achieved.

• Customer Care Divisions: Along with internet access the customers’ queries about any schemes should be answerable and attract through well suitable counseling.
• **Educating the public and the investors**: Workshops or seminars explaining the importance and risk factor associated with different classes of assets may be conducted from time to time for the existing investors. At the same time awareness programmes more in all areas and more in number should be conducted for the public.

• **Understanding the Psychology of the Investors**: AMCs should put extra effort in studying and understand the psychology of investors in order to provide better schemes and better service.

**VI. CONCLUSION:**
Systematic Investment Plan (SIP) is the winning strategy in present market scenario. Small investors can make his or her investment in equity fund through the monthly or quarterly of in multiple of 500, 1000, 1500, 2000…… Small investor can enjoy the volatility (ups and downs) by investing regularly. Old investment in stock market is in present time showing losses even through SIP investment RETURN is far better in comparison of ONE TIME INVESTMENT at this present downtrend one can investment in balanced fund schemes. An SIP may not be able to lower the average purchase cost if equity markets rise in a secular manner.

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