#WiseWithEdelweiss

Before you SIP, mitigate these RISKs

In life, there is no such thing as a free lunch and in equity markets there is no such thing as a risk-free investment. A Systematic Investment Plan (SIP) is touted as one of the best ways of investing in the equity markets. It comes with myriad benefits and can help investors meet their financial goals. However, every investment vehicle has its own set of challenges that one needs to be aware of and then address in a systematic and judicious manner. Being aware of the challenges with an SIP can help investors mitigate the following risks and reduce their impact.

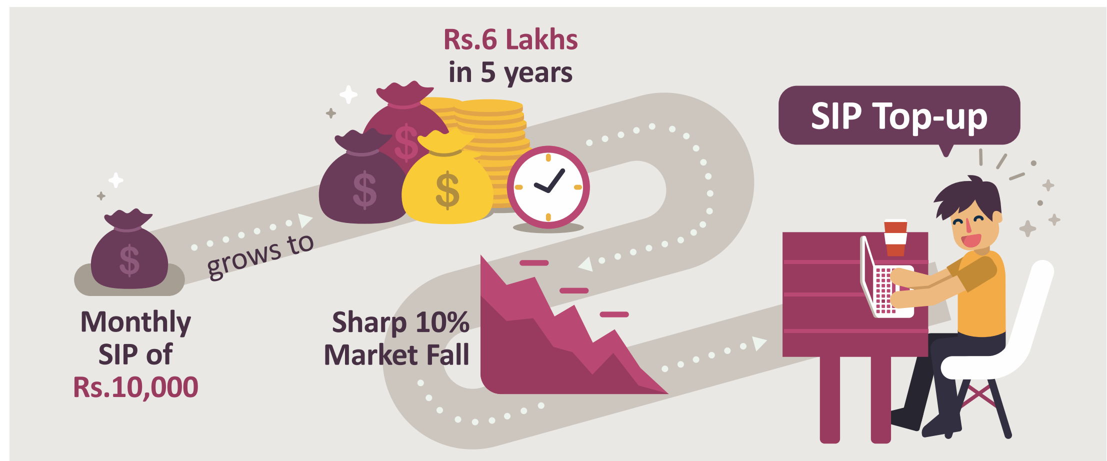
Risk associated with SIPs and its mitigation:

Averaging doesn't work efficiently when your corpus grows significantly

One of the main benefits of investing through an SIP is "Rupee Cost Averaging". However, the benefits of rupee cost averaging can recede considerably with an increase in the investment corpus.

Example: Let us assume that a monthly SIP of Rs.10,000 grows to Rs.6 lakhs in 5 years. If the markets were to witness a sharp fall of 10% at this time, then an SIP of Rs.10,000 would not be sufficient to average out the losses from the fall.

Solution: An intelligent way to combat this risk is to do an SIP Top-up in such situations. By increasing the SIP amount in tandem with the growth in corpus one can ensure that averaging is done effectively.



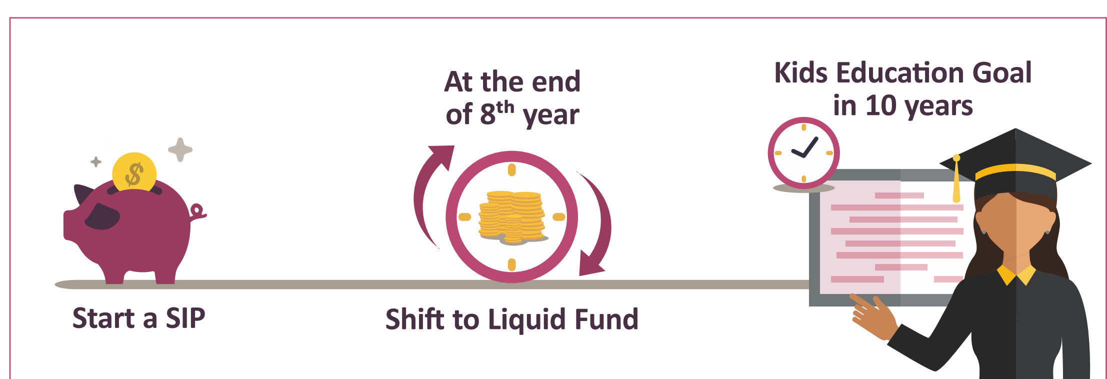
The above is only for illustration purpose.

Point to point risk

The very nature of equity investments is uncertainty. While an SIP route ensures that an investor can reap the benefits of the equity markets, it does not guarantee a fixed return at the end of the tenure. If an investment is done keeping a specific goal in mind, then it is not necessary that the desired returns will be realised at the time of goal fulfilment.

Example: Let us say that you started an SIP to meet a goal of ten years from now. However, at the end of the ten year period the equity markets are down. Consequently, if you choose to end your SIP in this year then you run the risk of not being able to meet your goal.

Solution: Do not end your SIP in the year when you want to achieve your goal. Instead, plan your SIP judiciously and end it much before. Once you end the particular SIP, slowly start shifting to a liquid fund as you approach your goal.



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Opportunity loss when markets are cheaper

Markets are not unidirectional. Consequently, they give investors ample opportunities to participate in a gainful manner. Stock market corrections often give investors an opportunity to invest in stocks of good companies at compelling valuations. In such a scenario, a lumpsum investment might be more beneficial than a simple SIP.

Solution: When equities are available at compelling valuations, investors can choose to increase the amount they invest through an SIP.

Choosing Right Fund

Many people feel that SIPs should be done only in high risk/ high return kind of funds which are held for the long-term. However, an SIP is an investment vehicle that can help investors invest in all kinds of fund and for varying time frames. Investors should choose a fund for SIP based on their individual risk profile, goals and investment horizon.

Solution: Seek advice and understand your risk/return objective to invest wisely in a fund that can help you achieve your financial goals.

Time Frame	Investment Options
Very Short Term	Debt Funds
Short Term	Balanced Funds
Medium Term	Large Cap Funds, Mid Cap Funds
Long term (10+ years)	Mid Cap Funds, Small Cap Funds

The above is only for illustration purpose and can vary as per individual requirements.

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MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.