



- Making regular investment a habit goes a long way in realising our goals in life
- ☐ SIP should be your first step to investment
- There are many benefits of investing through SIP
- ☐ In this series let me explain the benefits of SIP using simple stories



#### **BENEFITS OF SIP**

- 1. No need to time the market
- 2. Virtues of disciplined investing
- 3. Advantage of Rupee Cost Averaging
- 4. Advantage of Power of Compounding



# **Never try to "time the market"**

Let me tell a story that will help you to understand that with an SIP you will not have to worry about timing the market

- Rajesh, Sachin and Roopa were good friends in college
- ☐ They shared notes if anyone of them missed a class, went to movies together, and generally liked to hang-out together



- Rajesh really liked the sweet, innocent yet outspoken nature of Roopa and had a soft corner for her. Being a little shy by nature, however he held himself back from expressing his love for her, fearing an adverse reaction
- One day he decided to take the help of his friend Sachin. After hearing Rajesh, Sachin encouraged him to express his feelings to Roopa without wasting any further time
- ☐ However, Rajesh thought that "Rose Day" would be the right time to tell Roopa about his love



- On Rose Day, Rajesh saw Roopa walking towards her friends. She was looking gorgeous in a brand new salwar kameez. However, as she walked towards her friends, Rahul, the college Romeo suddenly stepped in and handed her a red rose. As Roopa blushed, Rahul went a step further and uttered the 3 sacred words "I Love You Roopa". Roopa was on cloud nine.
- □ Completely forgetting her friends, she accepted Rahul's invitation to go out on a date.
- Rajesh was left repenting his indecision as Sachin consoled his friend.



#### **Lesson for SIP**

Learn your lessons well. Never wait for the right time to invest in the market, or you will be left repenting for the lost opportunities that the capital markets present. By investing in SIP regularly, you ensure that you don't fall into the trap of "timing the market".





- ☐ There were 2 good friends Ram and Shyam.
- Both of them were obese.
- One day they saw a pretty girl
- ☐ They got attracted to her and started singing "Laila tu laila laila,

  Aisi tu laila \_ \_ \_ "
- The girl, rather irritated, stared back at them. She then removed her sandles as if to thrash them.
- ☐ The signal was good enough for both to understand that they had no chance of impressing her



But then they were not the types to give up so easily

- They proclaim that within three months they would transform themselves such that the girl herself would fall head over heels for them.
- ☐ They declare that they would exercise themselves to fitness



- Next day Ram and Shyam both go jogging
- □ Ram is enthusiastic but Shyam simply lazes around
- Shyam declares that he will achieve the same level of fitness as Ram. But he will not jog regularly for achieving this.
  Instead he would get back to shape on the back of power lifting in the gym





The dates roll on the calendar and slowly Ram starts falling into shape making the girl to smile.

□ Shyam who had been lazing all this while is astonished at Ram's change of fortune.

☐ He decides to go to his gym and exercise vigorously



- □ So Shyam pumps and pumps in the gym with all vigor and determination.
- ☐ The overdose of exercises does him in.
- His muscles tear apart and his joint gets dislocated.
- Ram on the other hand walks with the girl hand in hand in the same park where he jogged himself to fitness.



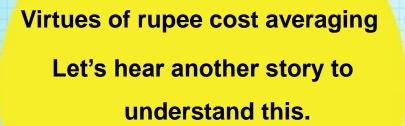
- □ Ram visited Shyam in the hospital to check on him
- Shyam lying in the hospital bed said to Ram on seeing him, "I though I could get myself to shape by vigorously exercising using heavy weights but alas, I was so wrong."
- Ram had his reply ready for this," the virtues of discipline and regularity are timeless. They never fail you under any circumstances."



#### **Lesson for SIP**

"SIP is a regular and disciplined method of investing which yields the most optimum results in the long run. SIP is a long term method of investing and the best results are seen in the long run. Thus besides the discipline it also calls for patience just as regular jogging does as far as getting you in shape is concerned"







Let me tell you a story ...

- Once there was a girl named Sunaina.
- She was smart and beautiful.
- She was considered a good student in her class.
- ☐ Her parents were very proud of her



- ☐ Sunaina's exams had just started.
- She had to appear for 7 papers in all.
- She, as per expectations had done very well in her first 4 papers.
- Now, with only the last exam of Geography left, Sunaina suddenly developed high fever.
- Although she gave her exam, due to her ill health she was not able to answer the questions well.



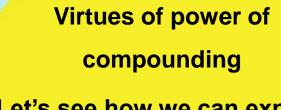
- ☐ This clearly got reflected in her results
- □ In Maths she had scored 90, Science 80, History 70, English – 75, Hindi – 65, Social Science – 77 and Geography – 20.
- A minimum of 40 marks were needed for passing. This meant, technically she had failed in Geography.
- However, Sunaina's score in Geography in the previous 3 examinations in the year were 80, 75 and 90.
- $\Box$  Hence her average score turned out to be = 80+75+90+20/4=66.25
- ☐ Thus because her school considered average scores for promotion to the next class, Sunaina despite her poor score in Geography, got promoted.



#### **Lesson for SIP**

- So just as Sunaina benefited from the concept of averaging, so can you as an investor benefit from this concept by hedging yourself against unexpected fall in the markets.
- ☐ Thus by investing through good times and bad times, SIP helps your investment deliver reasonable returns.
- When the prices are high, your SIP ends up buying less units and when the prices are low, your SIP tend to buy more units
- ☐ This results in averaging your cost of purchase





Let's see how we can explain this with a story



■ A business man's son approaches his father with an idea for a new business hoping to win his approval for financing the venture

☐ The father likes the idea but gives his son 2 financing options



□ The first option – He would give his son 1 lac everyday for 31 days

■ The second option – Starting with 1 paise, he would double the money every day for 31 days



# The choice appeared obvious

- The son without a thought goes for the first option as he clearly sees Rs. 31 lacs at the end of the month.
- He does not even consider the second option thinking 1 paise getting doubled every second day would certainly yield less than Rs 31 lacs



As promised the father gives him 1 lac per day, but still asks his son to go back and closely analyse the second option

☐ The curious son goes back to his room and works out the figures on an excel sheet.



The table....(first 16 days)

Day	Option 1 (Rs.)	Option 2 (Rs.)
1	100,000	0.01
2	100,000	0.02
3	100,000	0.04
4	100,000	0.08
5	100,000	0.16
6	100,000	0.32
7	100,000	0.64
8	100,000	1.28
9	100,000	2.56
10	100,000	5.12
11	100,000	10.24
12	100,000	20.48
13	100,000	40.96
14	100,000	81.92
15	100,000	163.84



# Now ....(the next 15 days)

Day	Option 1 (Rs.)	Option 2 (Rs.)
16	100,000	327.68
17	100,000	655.36
18	100,000	1,310.72
19	100,000	2,621.44
20	100,000	5,242.88
21	100,000	10,485.76
22	100,000	20,971.52
23	100,000	41,943.04
24	100,000	83,886.08
25	100,000	167,772.16
26	100,000	335,544.32
27	100,000	671,088.64
28	100,000	1,342,177.28
29	100,000	2,684,354.56
30	100,000	5,368,709.12
31	100,000	10,737,418.24
Total	3,100,0 <mark>00</mark>	21,474,836.47



#### Astonished!!!!

- The businessman's son fell off his chair when at the end of the calculation, he realized how big a fool he had turned out to be by opting for the first option.
- ☐ The second option would have yielded a whopping Rs. 2.14 cr
- His father smiled at him and said, "What you just saw is the power of compounding. If not a miracle, it is nearly one."



Advantages of SIP...

When your investments are given more time in the market, it ensures that your money and the interest it earns both grow multiplying your money many times over



#### **Lesson for SIP**

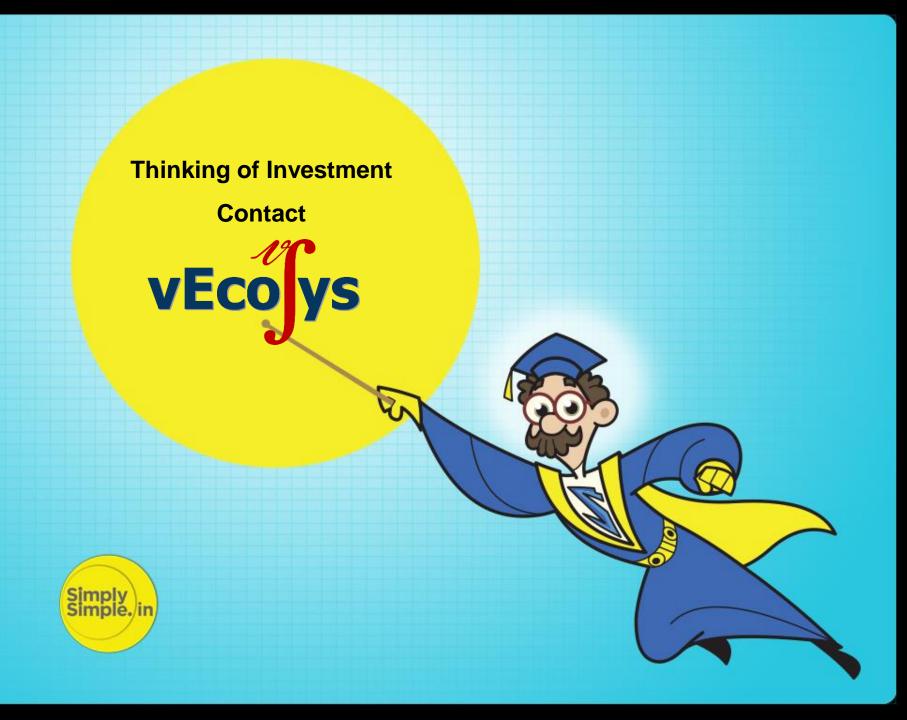
- ☐ The power of compounding is inherent to SIP investing
- When your investments are given more time in the market, it ensures that your money and the interest it earns both grow multiplying your money many times over
- ☐ Its up to you now, whether you would like to act like the son of the businessman or like the businessman himself.







Hope this lesson has succeeded in explaining the concept of "Systematic Investment Plan (SIP)"



# **DISCLAIMER**

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