



Step Up SIP Through Your Time Horizon

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The systematic investment plan (SIP) has emerged as the most preferred way for retail investors in India to park their funds in equity and equity-oriented funds. This systematic approach allows them to maintain discipline in their savings as well as the investment process while keeping emotions out of their investments, and tackle volatility in the marketplace in the right way. Small wonder then, the fear of volatility no longer keeps them away from this wonderful asset class.

As is evident, SIP is allowing investors across the length and breadth of the country to participate in the growth of the stock market and create wealth over time. However, to get the best out of this disciplined approach, an investor needs to ascertain how much to invest to achieve varied investment goals, have a strategy to increase the SIP amount over time, and remain committed to the defined time horizon. Here are a few steps that can help you get the best out of your investments through SIP.

1) Choose the Correct SIP Amount

The right way to determine the SIP amount is to follow a goal-based investment process. After defining the goals, ascertain the time horizon and set a target for each one of them. For long-term goals, you must consider inflation while setting the target. Thereafter, based on an asset allocation for each one of the goals, assume an annualised return and then calculate the SIP for each of the goals. There are numerous calculators that can help you in this process. The cumulative amount for all the goals put together will determine how much you need to invest per month.

2) Follow Budgeting to Ensure There Are No Gaps

Once the SIP amount is worked out, the next step should be to do the budgeting and figure out how much you can invest every month. If there is a gap, re-look at your budget and figure out if some of the expenses can be cut or curtailed to fill the gap. If the gap still remains, you need to commit to step up your SIP every year to ensure that you are investing as much as required and maintain the discipline of investing a part of your growing

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Even if there is no gap at the beginning, it is important to remember that the target amount for long-term goals like retirement planning has to be reset in line with your changing lifestyle and income. That's where step-up SIP will ensure that you have the capacity to achieve the revised target. Step-up SIP also gives you the flexibility to decide when to increase the amount. For example, you may like to increase the amount of SIP after taking care of your other goals like children's education, buying a house, etc.

3) Understand how Step-Up SIP Works

Step-up SIP entails increasing your monthly SIP contribution on a periodic basis. For example, you can follow the strategy of increasing your SIP amount every year. The amount can either be increased by a fixed sum or in term of percentage of the SIP amount. The biggest advantage of maintaining the discipline of increasing your SIP amount is that it allows you to synchronise the SIP amount with your growing income.

Simply put, it allows you to invest more as you earn more. Step-up SIP can make a huge difference to what you get to accumulate over a longer period. For example, if you invest ₹20,000 per month in equity funds through SIP over a period of 20 years, based on an annualised return of 12 per cent, you can expect to build a corpus of ₹2 crore. However, if you step up your SIP by 10 per cent every year, the accumulated corpus could be around ₹4 crore.

