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Stay the Course: Why Consistent SIP Investing Beats Market Timing

Recent market volatility has led some domestic mutual fund investors to pause or stop their SIPs (systematic investment plans), with the latest data showing a slowdown in new SIP account openings and a SIP stoppage ratio above 60 per cent for the second consecutive month. However, despite these short-term fluctuations, October witnessed record-high inflows into equity mutual funds, with an investment of over ₹41,000 crore.

This surge is largely attributed to new fund offers and an increase in average ticket sizes of active SIP accounts, demonstrating the resilience of committed investors. While pausing SIPs amid market dips may seem prudent, it's a classic mistake in the world of investing. Investors who stay the course and maintain their SIPs during volatile periods benefit from rupee-cost averaging, which allows them to buy more units when the prices are low, ultimately strengthening their portfolios.

Market fluctuations are a natural aspect of long-term growth, and attempts to time the market often lead to missed opportunities and diminished returns. Some investors, drawing cues from the post-election fall and sharp recovery in June 2024, may choose to make lump sum investments during downturns, hoping to capitalise on lower prices. However, trying to time the bottom is challenging even for seasoned investors, and this approach can lead to unintended risks. Notably, the data shows an encouraging trend: the average SIP contribution has reached a multi-month high, indicating that many investors recognise the value of disciplined investing.

SIPs, with their steady, consistent contributions, remain one of the most effective ways to build wealth over time, irrespective of market highs or lows. In conclusion, consistent SIP investing builds resilience against volatility, enabling investors to take advantage of both market peaks and troughs. By focusing on patience and discipline rather than timing, investors can unlock the power of compounding and better position themselves for long-term financial success.

Shashikant

Shashikant Singh
Executive Editor

Factors to consider in Step-up SIP

Your recent story on step-up SIPs was highly informative, covering both the advantages and drawbacks of this investment approach. Beyond what you discussed, are there any additional factors that investors should keep in mind when choosing a step-up SIP?

- Dinesh Thakkar

Editor Responds : When opting for a step-up SIP, it's essential to align it with your financial goals, particularly long-term ones like retirement or education. This strategy is especially useful for those with expected income growth, allowing you to increase SIP contributions over time without straining your budget. Periodic increases help maintain the real value of your investment against inflation, and adjusting your SIP based on your risk tolerance can further support balanced growth.

While step-up SIPs minimise market timing concerns, understanding economic conditions can aid in choosing the right funds. Finally, as increased SIP contributions can affect taxes, consider tax-saving options to keep your portfolio efficient.

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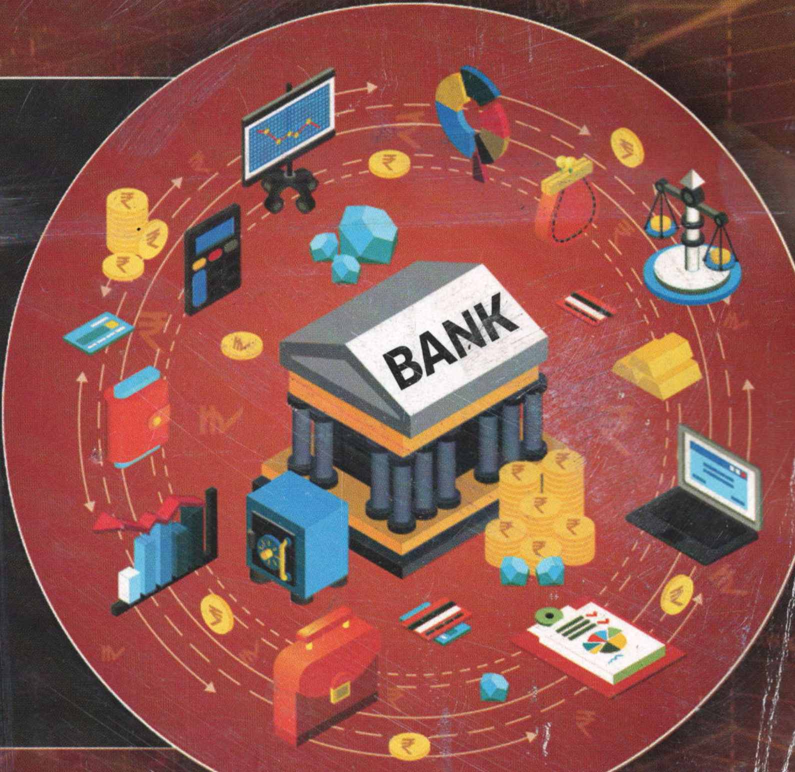

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