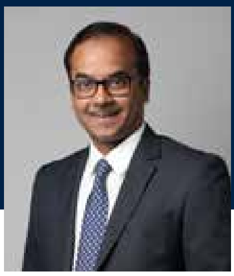
PGIM
India Mutual Fund

Keeping the faith in SIP investments



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CEO

The trend of financialization of assets has picked up over the last few years thanks to slowdown in real estate and lackluster movement in gold prices. The concentrated efforts by the distribution fraternity, mutual funds and the marketing support by AMFI helped MFs to achieve a new level of retail penetration. The most heartening fact of this development was rapid rise in the number of SIPs (Systematic Investment Plan). Mutual Funds in India as of March 2019 have 2.62 crore SIP accounts totaling to around Rs. 8000 cr per month through which investors are taking the benefit of Rupee cost averaging in a disciplined manner without worrying about market volatility and hassle of timing the market. AMFI data suggests that the industry added around 9 lac SIPs during the FY 18-19.

A large number of SIPs have been started in last 2 to 3 years with midcap funds gaining a major part of the pie. The market correction and sideway movement in stocks has resulted in sub par returns for SIPs started in last two years. For e.g average SIP return for midcap funds for two years is around 4%.

Like in previous bull runs, looking at sub par returns some investors have rushed to stop their existing SIPs. Their rationale being it is yielding lesser than the bank FD and much lower than 12-15% returns expected from the stock market. It is reasonable to expect double digit returns from quality stocks over a long term but the caveat is that the returns do not come in a straight line. Unlike a recurring deposit SIPs will not show returns month on month but eventually help you achieve your financial goal.

To test our belief we revisited the SIP data of our flagship product DHFL Pramerica Large Cap Fund. In the history of Indian markets 2004-2008 was the strongest bull run that ended with the Lehman crisis in 2008. SIPs started in Jan of 2005 showed a return of 2.79% p.a. in Dec 2008. For the investors who stayed focused on the long term the same SIP delivered a CAGR of 11.54% till April 2019.

Similarly in 2013, we saw a market meltdown thanks to what was known as US Fed taper tantrums. Emerging market currencies tanked on worries of liquidity being sucked out by the US Fed leading to a sharp correction in the markets. Again a SIP in our large cap fund started in Jan 2012 showed an abysmal return of 3.30% p.a. in August 2013. The same SIP if it was continued till April 2019 delivered a CAGR return of 12.02%

There are many such data points that clearly indicate that in the long term SIP sahi hain. SIP in our equity funds comes with an added advantage of an insurance cover. Insurance has certain terms and conditions but broadly it is available for resident individuals in the age group of 18-51 years and continues till the age of 55 years and has a maximum cap of Rs.50 Lacs. The idea behind the Smart SIP (SIP plus Insurance) is that it is a value add that helps keep financial goals on course for the near and dear ones in case of unfortunate death of the investor.

We continue to stay focused on bringing solutions like Smart SIP, Dynamic Advantage Asset Allocation Facility, Age Linked Asset Allocation Facility. To know about these unique offerings do get in touch with your investment advisor.

One sincere request is that please do not let the noise surrounding elections, trade wars, oil prices, etc deter you from making investment decisions or continuing your SIPs. It is worth remembering the advice of the legendary investor Peter Lynch that “Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves.”

Happy investing