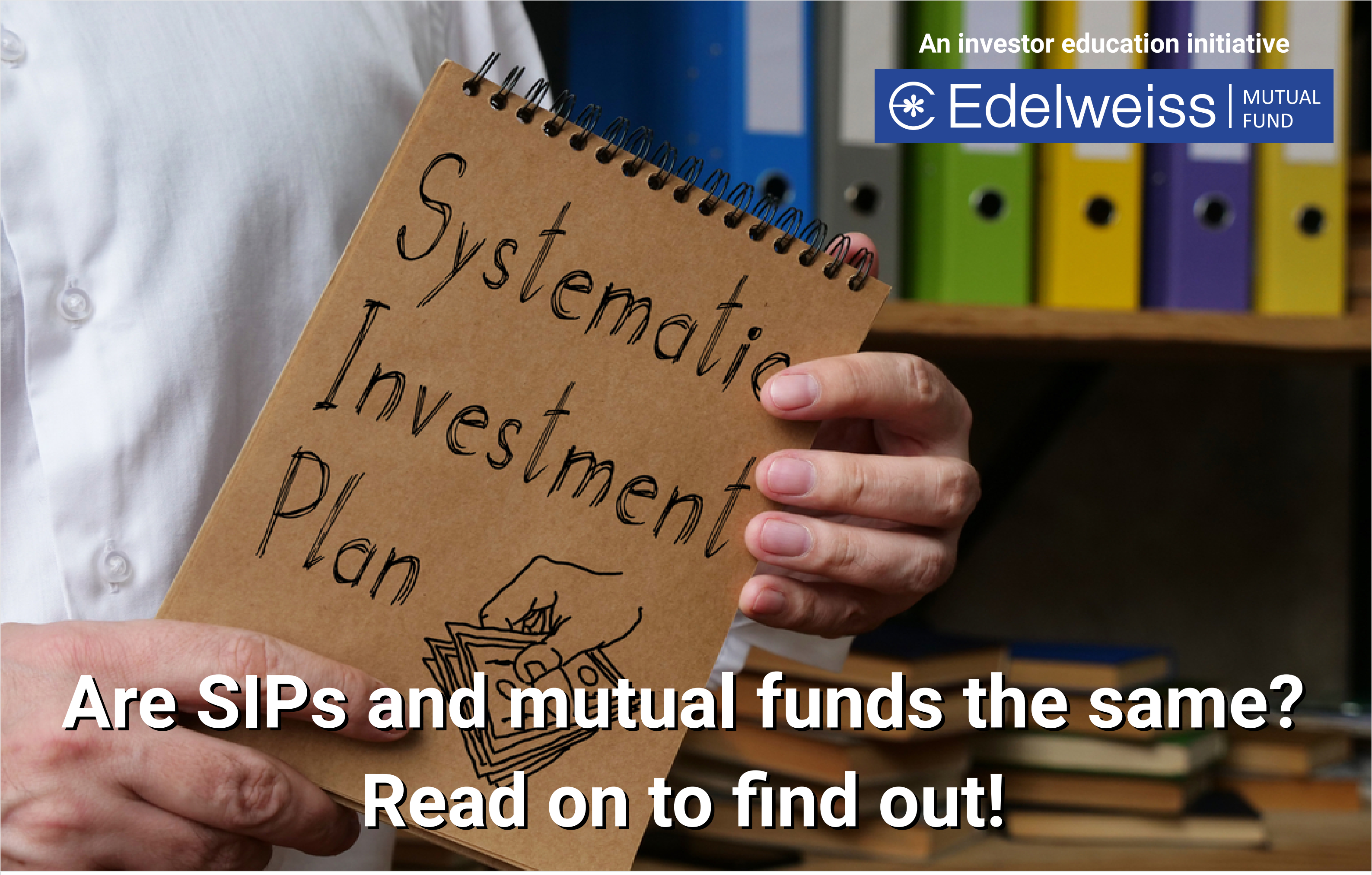

Are SIPs and mutual funds the same? Read on to find out!

When you google 'SIP investments', 'what is SIP', what is a Systematic Investment Plan, etc., you will find a lot of textbook definitions. But today let's understand SIPs with the help of an example.

Suppose, you are given a task to fill 1200 litres of water in a tank in two hours. You have two options – you can either start a tap that will automatically pour 100 litres of water in the tank after every 10 minutes. Or, you can simply choose to lift the water at once and pour it. What seems easier? You would say, of course, the first one because you just have to open the tap once without any hassle. Whereas, in the second case, you will be physically burdened. Moreover, you will need help too.

An SIP(Systematic Investment Plan) in mutual fund is just like opening the tap once. When you choose to invest in mutual funds, you have two options – you can either make a lump sum investment or invest in instalments through SIPs. A heavy one-time investment may not be very pocket-friendly and end up burdening you financially. On the other hand, SIPs are light on the pocket and they offer several other benefits too. Let's dive into them.

Features and benefits of SIPs

- **Regular investment**

An SIP helps you invest regularly in the mutual fund scheme of your choice. When you start an SIP, you give standing instructions to your bank to automatically transfer a fixed amount at regular intervals to your chosen scheme. As such, you don't have to spare the time and effort to invest your money.

- **Low investment amount**

One of the reasons that stop people from investing is the lack of savings. However, you can start an SIP even with Rs.500. You can also opt for daily, weekly, monthly or quarterly SIPs based on your convenience.

- **Rupee cost averaging**

When the price of a commodity keeps changing, it is better to spread your purchase over a period. This is because you will not have to suffer from the uncertainty of price fluctuations. With SIPs too, fund managers buy more units when the price is low and fewer units when the price is high. As such, your investment cost gets averaged out over time. This is known as rupee cost averaging.

- **Power of compounding**

Compounding means earning returns not only on your principal investment but also on the returns that get added to it. With regular and long-term SIPs, your money may compound and grow.

- **Financial discipline**

When you know that you must have a certain amount in your bank for SIP instalments, you tend to become a cautious spender and a diligent saver.

- **Different types of SIPs**

To add to the flexibility of SIPs, fund houses offer different types of SIPs, namely, step-up or top-up SIPs, flexi SIPs, trigger SIPs and perpetual SIPs.

Top-up SIPs allow you to increase your SIP contributions by a fixed percentage or amount at specified intervals. Flexi SIPs allow you to increase or decrease your SIP amount as per your situation. Perpetual SIPs don't have a fixed investment period; your SIPs continue until you decide to stop them. Trigger SIPs allow you to set a trigger event for the fund house to act upon. For example, you can set a trigger for your fund house to exit the scheme as soon as your investment makes a profit of Rs.1 lakh.

How to invest in SIP?

How difficult can opening a tap possibly get? Likewise, starting an SIP is very simple too. Here's what you have to do:

1) Set your financial goals and quantify them. Once you know how much you need, decide on an investment tenure and note down your expected rate of return.

2) Use a mutual fund calculator to know how much should be your SIP amount. Don't look up 'lump sum sip calculator' online. This is because mutual fund calculator lumpsum will only help you with lump sum investments. There is a separate calculator for an SIP in mutual fund.

3) If you have just started investing, complete your KYC process with your chosen fund house. Type 'AMC mutual fund' and you can get the details of the leading fund houses in India.

Once you are KYC compliant, you can register for an SIP on their official website by entering a few basic inputs such as your SIP details, bank details, etc.

Now you know how SIP works. If you are also confused about other commonly used abbreviations in the mutual fund world such as SWP and STP, you can read this article:

https://www.edelweissmf.com/investor-insights/mutual-fund-investment-tips-and-articles/sip-vs-stp-vs-swp-whats-the-difference