De-jargonising SIP, STP & SWP

When you start your investment journey with mutual funds you are already aware of the many benefits that mutual funds offer ranging from diversification and liquidity to access to expert fund managers. As a result, you only end up paying attention to the choice of investment and do not focus on the way you invest. The great thing about mutual fund investments is that in addition to the many benefits that they offer they also allow you to automate your investments and withdrawals so that you can systematically invest and reap the benefits of your investments. You can choose to invest via the Systematic Investment Plan (SIP) and Systematic Transfer Plan (STP) route and you can opt to systematically withdraw your investments over a period of time through the Systematic Withdrawal Plan (SWP) route.

In order to truly leverage each of these options, let's understand them better.

	SIP	STP	SWP
Define	Invest a fixed amount of money into a mutual fund scheme of your choice	Transfer a fixed amount of money from one mutual fund scheme to another mutual fund scheme	Withdraw a fixed amount of money from your money invested in a mutual fund scheme
Periodicity	As per your choice - fortnightly, monthly, quarterly	As per your choice - fortnightly, monthly, quarterly	As per your choice - fortnightly, monthly, quarterly
Purpose	Growing long-term investment	Growing and protecting long-term investment	Withdrawal of accumulated investments
Purpose	When you start an SIP, your bank account is debited with fixed sum and this money is then invested in a mutual fund scheme of your choice. The money gets debited fortnightly, monthly, or quarterly (as per your choice) & equivalent mutual fund scheme units are bought. Generally SIPs are started in equity mutual funds as they help to reduce the impact of equity mutual funds as they help to reduce the impact of equity market fluctuations and potentially generate long-term wealth.	When you choose an STP, units in a mutual fund scheme of your choice are redeemed. The money released from this redemption is then invested in another mutual fund scheme of your choice. This can be a fortnightly, monthly or quarterly exercise. In essence, you are basically transferring money from one scheme to another. Generally an STP is choosen to transfer money from a debt scheme to an equity scheme.	When you opt for an SWP, a fixed amount of money is withdrawn from your mutual fund investment and credited to your bank account.
Benefits	1. Compounding 2. Rupee cost averaging 3. Disciplined investing	1. Earn from fixed income investments 2. Compounding 3. Rupee cost averaging 4. Disciplined investing	1. Continue to earn from your investments even as you withdraw money to meet your income needs. 2. No need to worry about re-investing your corpus during retirement years
Taxation	Capital gains taxed on redemption	Taxation on every transfer amount as it is redeemed from another investment scheme	Applicable gains on every redemption

Now that you understand the relative benefits of each investment route, let's understand which route should be chosen and when.

Why SIP?

SIPs are excellent vehicles for long-term equity investing as they allow you to invest in the equity markets in a systematic and disciplined manner. By investing in equities via the SIP route you can benefit from compounding and participate at all market levels, thereby reducing the average cost of your investments and reducing the impact of sharp price movements on your investments. From that perspective, it is always good to start an equity SIP. The best thing is that you can start one with as low as Rs. 500.

Why STP?

An STP is usually done from a debt scheme to an equity scheme. This is really helpful if you are a first-time investor and want to slowly participate in the equity markets. You can invest your money in the relative safety of a debt scheme and slowly transfer it to an equity scheme. This way, you can protect your investments and slowly benefit from the growth potential of equities. It could also help you if you want to make a lumpsum payment and don't want to invest the entire amount in equities due to negative market conditions. This way, your corpus can be protected by debt investments and you can systematically invest in equities. Additionally, you can also benefit from compounding, rupee-cost averaging, and disciplined investing.

Why SWP?

An SWP can help you create an income stream in your retirement years. Through your working life, you can accumulate a big corpus. Now, when you reach retirement, you need to systematically access this corpus in a way that it might continue to earn some returns and become a steady income stream for you. Thus, an SWP helps you to systematically withdraw your money through your retirement years, thereby becoming your retirement income.

Choosing the right fit for your needs

Now that you know all the differences in the SIP vs STP vs SWP equation, let us consider the right option for your requirements. In the SIP vs STP aspect, you have seen how SIP is used to invest in a scheme, while STP is used to transfer the investment, usually from an equity scheme to debt scheme, when you require a more stable investment option. Now, considering the STP vs SIP query, you should pick the SIP route while undertaking initial investments and opt for STP when transferring your investment to another scheme.

Separately, in the SIP vs SWP equation, the former, as we have seen, is an investment plan while the latter is a withdrawal scheme. Therefore, you can pick between SIP vs SWP depending on your requirement, which can be either to start investing or withdraw your already invested amount. This clears up the SIP vs STP vs SWP equation for you, and you can choose SIP vs STP vs SWP depending on your specific investing, transfer and withdrawal needs.

Whether you choose between SIP vs STP or pick one of the options in the STP vs SIP equation, you must always focus on your actual investment requirement to arrive at the right option for your needs.

Clearly, the way you invest and the investment vehicle that you choose can be as important as the investments you make. By choosing the right investments and the right investment vehicle, you will be better positioned to realise your financial goals.