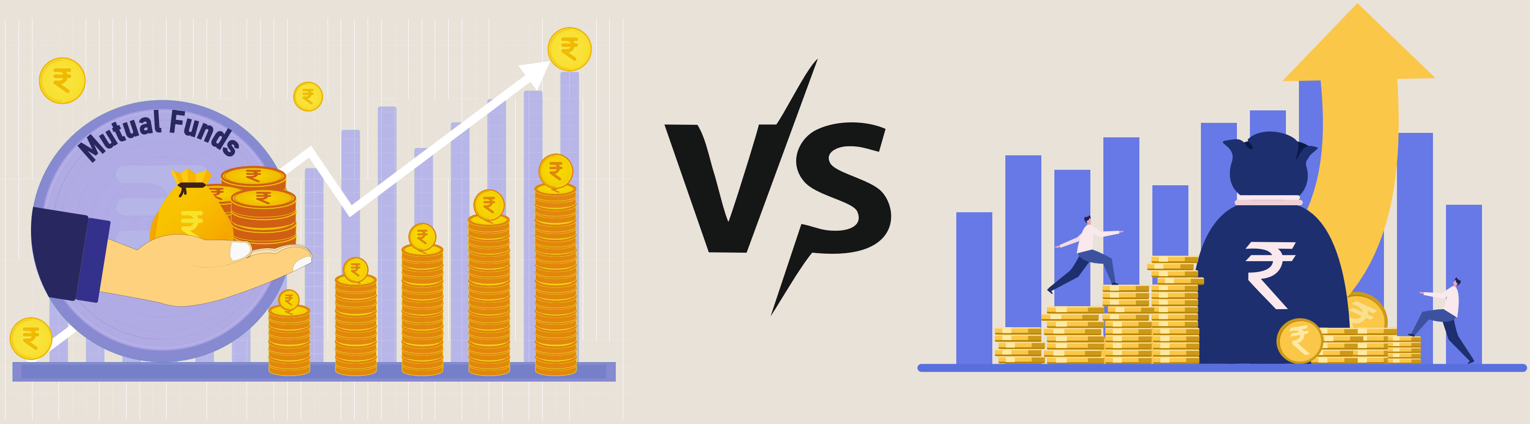

Mutual funds vs SIP - Understanding the key differences

Introduction

Systematic Investment Plans (SIPs) and mutual funds are two popular names in the investment world that often confuse investors. Some people use them synonymously, while others think of them as two sides of the same coin. The truth, however, may be a bit more detailed. Here's a thorough SIP vs mutual funds analysis to help you understand their differences and meanings.

What are mutual funds?

Mutual funds are a type of investment tool that pools money from different investors and invests it in the market. There are different types of mutual funds categorised on different grounds such as their investing styles and the securities they invest in. Mutual funds are established and run by Asset Management Companies (AMCs) and are regulated by the Securities and Exchange Board of India (SEBI).

If you read about mutual funds, you are bound to be acquainted with the term SIP. Let's find out what this is.

Understanding SIPs

SIPs are a method or process through which you can invest in mutual funds. Mutual funds offer two ways of investing in them. You can invest in them in a lump sum or make periodic investments through SIPs.

SIPs allow you to make regular investments in a mutual fund scheme of your choice. You can set the investment amount and frequency of your SIPs as per your liking. For instance, a monthly SIP of Rs 5,000 in Fund X will automatically deduct Rs 5,000 from your bank account and invest it in Fund X every month until you stop it.

There are several more mutual fund and SIP differences. Find out what these are in the next section.

Mutual funds vs SIP - Key differences between SIP and mutual funds

Points of difference	Mutual funds	SIP
Structure	Mutual funds are pooled investments managed by professional fund managers.	An SIP is an investment method that allows you to make regular investments in a mutual fund scheme.

Method of investment	You can invest in mutual funds in a lump sum or through an SIP.	An SIP allows you to make regular fixed investments for a chosen period of time in a mutual fund scheme.
Frequency	You can invest in mutual funds in a one-time lump sum or through regular investments periodically.	SIPs only allow recurring investments.
Investment amount	When investing in mutual funds, you can make a lump-sum investment, generally starting from Rs 1,000 or through SIPs that start from as low as Rs 500 per month.	When investing in SIPs, you can start with as little as Rs 500 per month.

Key takeaways

- Mutual funds are investments and SIPs are a way of investing in mutual funds.
- Mutual funds allow two modes of investment - lump sum and periodic SIPs that allow you to make regular fixed investments at pre-set intervals.

To sum it up

An SIP is a mode of investing in mutual funds. Mutual funds can help you meet your financial goals, and the availability of SIPs makes the task easier. The primary feature of SIPs is that they encourage you to make disciplined investments until your goals are met. Since SIPs and mutual funds have often been used in place of each other, understanding their differences is essential to make informed decisions and fully grasp the functioning of mutual fund schemes.