SIP in Mutual Funds vs in SIP in Stocks – Differences and More!

Xerox or photocopy?
Band-aid or bandage?
Google it or search it?

Isn't it interesting when some words take over others as synonyms? The same can be seen in the case of mutual funds and SIPs. The two are often used interchangeably and thought to mean the same thing. But they aren't. An SIP is only a method of investment that can be used to invest in mutual funds as well as stocks. Still not clear? Let's discuss this a bit more below.

What is SIP in mutual funds?

A sip of coffee a day keeps lethargy away, and an SIP of mutual funds a week/month/quarter keeps financial insecurity far and far away!

An SIP is short for a Systematic Investment Plan that allows you to invest your money in small but regular instalments at your chosen frequency. This enables you to be consistent with your investments and plan your future slowly and steadily. A mutual fund SIP can be easy on the pocket too.

Say, investing Rs. 5,000 every month of the year is much more feasible than investing Rs. 60,000 at once. While the latter SIP amount may break you into a sweat, the former will likely fit easily in your budget.

But as opposed to the popular notion, an SIP is not just a mode of investing in mutual funds. You can do it with stocks too.

What is SIP in share market?

A stock market SIP allows you to invest in stocks systematically and consistently. It works in the same manner as investing in mutual funds. You can select a stock you wish to buy, pick a frequency and the value of the investment, and voila! Your money will be auto-debited, and the shares of your choice will be purchased regularly.

A regular SIP in stocks is also known as an ESIP or equity SIP. If you find it challenging or time-consuming to time the market, you may choose this option.

SIP vs SIP – the better of the two?

A smart SIP in mutual funds can offer you benefits like the power of compounding, where your profits are reinvested to earn more. You also benefit from rupee cost averaging, where you get to buy more units when the prices are low and vice versa.

In the case of a stock market SIP, you can buy more stocks when the prices are low, but several other factors may be ignored. For instance, if you are investing in one share and the sector suffers, your returns will drop. On the other hand, mutual funds are inherently diversified. You may invest in a single fund but your money can still be invested across different sectors, themes, countries, etc.

Moreover, mutual funds are managed by professional fund managers with years of experience but there are no fund managers in the stock market. You are managing your investments yourself. One wrong move, and you could lose money.

An ESIP will require some experience and knowledge of the market, while a mutual fund SIP may be ok for novices and experts alike.

Conclusion

Stocks and mutual funds cater to different needs and risk profiles. Understanding your risk appetite and goals will help you make the right choice between the two. If you are looking for benefits like professional management and risk diversification from your equity investment, then you can opt for mutual funds. On the other hand, if you know the markets well, have the time and skills to manage your equity investment and have a high risk appetite, then you can go for stocks.