An investor education initiative

Edelweiss MUTUAL FUND

SIP vs LUMPSUM

Should your mutual fund investment be SIP or lumpsum?

Buying a house is a major life goal for most people. It has been a long-time dream of 28-year-old Susheel Kumar who is from a middle-class household. He wishes to buy his own house in the next eight years and has decided to invest in mutual funds to build a sizeable corpus for the down payment. However, he is confused whether it would be better for him to invest via the Systematic Investment Plan (SIP) route or the lumpsum route. Many of us have found ourselves asking the same question. Let us try to clear up this confusion.

Know your SIPs and lumpsum investments

While both the channels will allow you to benefit from mutual funds' potential to build a sizable corpus, the main difference between the two routes is the frequency. As the name suggests, SIPs are systematic investment options which give you the option to invest a fixed amount of money into a mutual fund scheme of your choice and at time periods that suit you best. This means that you can choose to invest fortnightly, monthly or even quarterly. Further, you can start an SIP with as little as Rs. 500, making this a convenient and budget effective option. It is the best route for you if you are looking to save money on a regular basis, instead of investing a bulk amount. If you are a salaried individual looking to build a corpus, the SIP route helps you park funds, at regular intervals, and build a tidy nest egg.

On the other hand, the lumpsum investment route involves investing a higher amount, at once, in a mutual fund scheme of your choice. This is an ideal option for you if you have already built a sizable corpus or have access to a relatively higher investment amount. Additionally, your risk tolerance needs to be higher as you are parking a bigger corpus in the scheme instead of making smaller periodic investments.

Main differences between SIP and lumpsum investments

SIP	LUMPSUM
You need not monitor the market closely as you invest periodically and on a consistent basis	As a big amount will be invested at once, you must be sure of the market outlook at the time of investment
Improves your chances of averaging out the cost of purchase as SIP schemes allow funds to purchase units during different market cycles. This means that you buy more units when prices are down and less units when prices are up. As a result, the average cost of your investment reduces.	Low probability of averaging out as funds are invested at once.
Compounding effect ensures that you can potentially generate higher returns as the income earned is reinvested in the scheme	Compounding is not a possibility in lumpsum investments
Market fluctuations do not have a major impact on the overall returns from the investment	It is a good option if markets have fallen sharply
Beneficial when you want to start small and build a sizeable corpus over a period of time	Great channel for investing annual bonuses or saved up corpuses

While both channels have their own inherent benefits, the method you choose should depend on two factors - your personal requirements and the market outlook. So, when should you choose an SIP and when would a lumpsum investment be the best bet?

When should you invest lumpsum?

- If you have received a large amount of money, like an annual bonus, then you can consider investing lumpsum
- If the markets have fallen sharply then it might be a good time to invest lumpsum as you can take advantage of the fall in prices
- If your goal is only 2 to 3 years away, then it might be wise to invest a part of the money lumpsum and a part of it via an SIP

When should you invest via SIP?

- When you don't have too much money to invest and still want to make small regular investments, you can start an SIP with as low as 500 rupees
- If you have long-term goals then an SIP can help you potentially grow your wealth through the power of compounding. It also helps you reduce the average cost of your investment through rupee cost averaging
- If you are having difficulty in maintaining a disciplined investment strategy, then an SIP can ensure that you invest regularly, thus helping you build a sizable corpus.

So, in Susheel Kumar's case, it is best for him to begin investing via an SIP as he is a salaried individual and can invest a portion of his salary in mutual funds periodically, thus making headway towards achieving his goal.