

SIP or lump sum?



Should I invest a lump sum in Mutual Fund or should I go the Systematic Investment Plan (SIP) route? - is a dilemma faced by most investors. When you invest a lump sum, you are instantly hostage to market timing. The investment will work only if you can time your buys at all market lows and sell your investments when the market peaks. In theory, all this sounds very appealing and, worse still, doable. In reality, it is quite the opposite. Investors flock to the market when it is on a roll and head for the exit when it begins to slide.

It is for this precise reason a SIP is recommended when investing, especially in [equity mutual funds](#).

It enforces discipline and consistency in investing. The pressure on your resources is low, if at all, since you are expected to part with small sums of money every month which are automatically deducted from your bank account. Such an investment strategy may help you ride market upheavals to your advantage. And it categorically does what you aim for - accumulate wealth over the years in a low-cost, transparent fashion with less strain on your finances.

SIPs are expected to curb volatility, both on the upside as well as downside. This is done by cost averaging since the investments are made on a periodic basis, and not at one go. Though the investment amount is fixed, more units are purchased when the market trends downwards, and fewer units when the market moves up. So in a rising market, the SIP allows for new purchases to be made at higher costs. This impact is then nullified during a market decline. In such a market, an SIP performs better because it helps mitigate the effects of falling share prices.

Markets move through cycles. You will experience a sideways market, an up market, a down market and plenty of volatile phases. The lump sum approach, by its nature, involves market timing. Most important of all, systematic investing might offer investors peace of mind and provides a smoother, more consistent entry into the market. It fosters a level of investing discipline. Rather than trying to figure out the best time to invest a lump sum, a systematic approach helps investors conquer bad habits such as increasing their exposure to equity only when the market is up.

So if they get their market timing absolutely bang on every time, lump sum investors may amass more wealth over time, though opting for SIPs is more realistic from a logistical and psychological standpoint. It can help overcome some of the psychological impediments that can bedevil investors, especially the difficulty of staying disciplined with their investment programmes in tough markets. Finally, at the most basic level, most people simply don't have lump sums to invest.

To know more about the benefits of a SIP [click here](#).

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