Why an SIP in mutual funds is one of the best route to avoid market volatility?

The meaning of SIP in a mutual fund is Systematic Investment Plan. An SIP in a mutual fund is a mode of investing that helps you to invest regularly in order to meet your financial goals effectively. It allows you to invest the same amount, in a particular mutual fund scheme, at a specified frequency. For example, it may be daily, weekly, fortnightly, monthly, or quarterly depending on your choice.

Let's look at a few interesting facts on starting an SIP in mutual funds.

- Market timing becomes irrelevant:

One of the biggest challenges in equity investing is; when to invest? The other big question is, where to invest? While, mutual fund investment plans solve the issue of where to invest, an SIP in mutual funds due to its regular frequency, helps us overcome the problem of when to invest. the equity market is volatile and reaching new heights and lows. Disciplined Periodic investment can help you ride this movement and build wealth.

When the markets are rising, it may not be wise to invest large sums at one go. An SIP in a mutual fund also involves disciplined investing irrespective of the state of the market as SIP investors buy even when the markets are low. This makes timing the market irrelevant, therefore lessening your worries about the state of your investments during market swings.

- Reduces the average cost:

In an SIP in mutual funds one starts investing a fixed amount regularly. Therefore, one ends up buying more number of mutual fund units when the markets are down and fewer mutual fund units when the markets are rising. This is called rupee-cost averaging. So you can take of all your necessary expenses and not miss out on investing.

Generally, those who are not adept at managing the swings of the market would stay away from buying when the markets are down. They mostly resort to investing when the markets are rising. When you start an SIP, it brings discipline to our portfolio as SIP investors buy even when the markets are low, which actually is the best time to buy.

- Does not strain our day-to-day finances:

An SIP in Mutual Funds investments helps us to invest in small amounts (starting from as low as Rs. 500/-), as against larger one-time investment required., if we were to buy equity stock directly from the market. This makes investing easier as it does not strain our finances especially in difficulr times like pandemic. SIP, therefore, becomes one of the convenient investment options for a first-time investor. You can use a SIP mutual fund calculator to assess how much you need to invest to achieve your future goals.
Those with surplus savings might opt for a larger SIP amount.

However, it is advisable to research before starting an SIP in a mutual fund in India. Do not select a fund merely on rankings and ratings which does not guarantee the performance of an SIP in a mutual fund. While investing, you can set a long-term approach and select the fund that matches your investment objective and financial goals or needs. Do consult your financial advisor for any further assistance.