Is the fear of volatile stock markets keeping you away from investing in equities? Historical evidence suggests that the stock market gives the best returns in the long term. If you are worried about the impact of possible volatility of equity markets on your investment, one way to minimise the risk of volatility is investing in equities through systematic investment plans (SIPs).

Some years ago, SIPs offered by equity mutual funds might have been your preferred investment vehicle if you wanted to reduce the volatility risk. Now, you can invest in stocks directly through equity SIPs.

An equity SIP allows you to invest a pre-decided amount in a set of stocks or exchange-traded funds at regular intervals and beat market volatility by averaging out the costs. Equity brokerages such as ICICI Direct, Reliance Securities, HDFC Securities and Fullerton Securities offer equity SIPs of varying amounts, frequencies and tenure. You can set a SIP, which buys a fixed number of shares, or invest a fixed

Riding Through Uneven Terrain

Learn how to become a more disciplined stock investor and minimise the risk of market volatility

By Pritam P. Hans

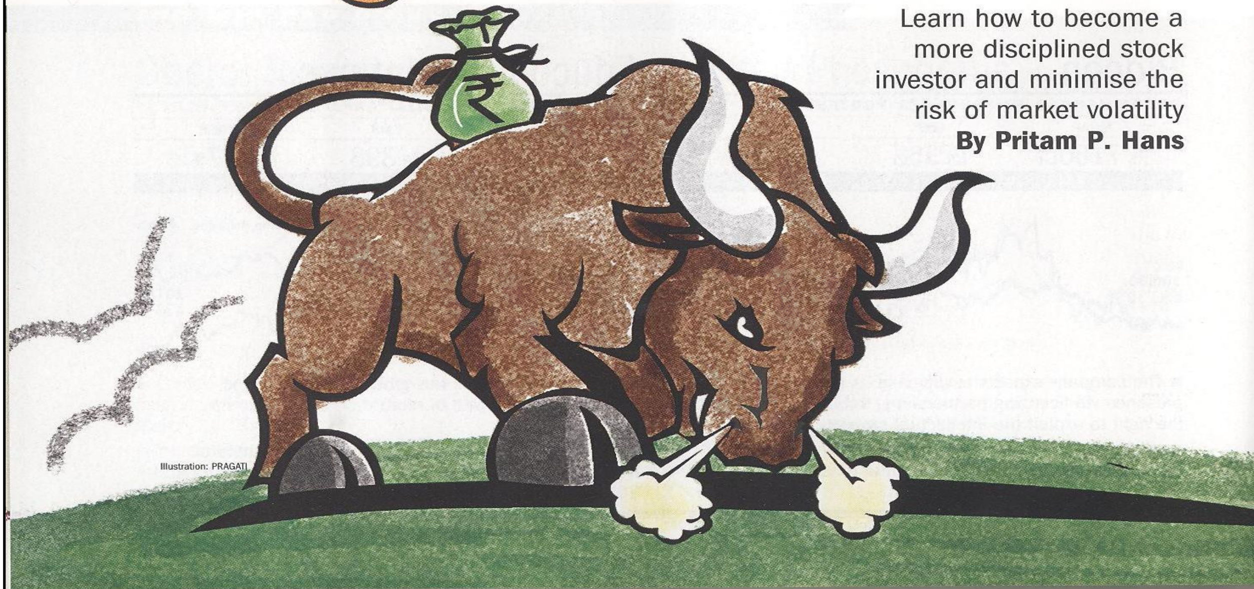


Illustration: PRAGATI

amount in equities on regular intervals. The investment amount can be given through cheques or transferred online through automated electronic clearance from your bank account. The shares are bought at the prevailing market rate at the time of SIP.

Most equity SIP plans offer you the freedom to create your own portfolio without any investment limits. "There is no cap on either investments or number of equity. With equity SIP, customers can choose to invest at a specified frequency—daily, weekly, fortnightly or monthly in the stock of their choice," says Vishal Gulechha, head (equity product group), ICICI Securities.

WHY EQUITY SIPS?

Investing in equities is all about being able to buy low and sell high. However, most new investors tend to buy when the valuation of stocks is high and sell when valuations start declining. This results in a loss to the investor. Equity SIPs help you avoid this common mistake in stock trading.

Equity SIPs eliminate the market timing-related guesswork. Though this does not guarantee profits, it allows you to participate in the market at various levels in a detached manner. "Investors who pay too much attention to the sentiment of the markets may not buy when the stock is down and may miss the opportunity of buying the stock. SIP makes the investment process clinical and takes the sentiment out, which results in time-tested returns," says Vinod Sharma, business head, private broking and wealth management, HDFC Securities.

Equity SIPs also reduce the risk of paying high for shares. "By buying shares in stages over a period of time, it averages out the price and prevents a lumpy investment. It also enables the investor to match his investments with his cash inflows. This is ideal for salaried class," Sharma adds.

FAMILIAR TURF

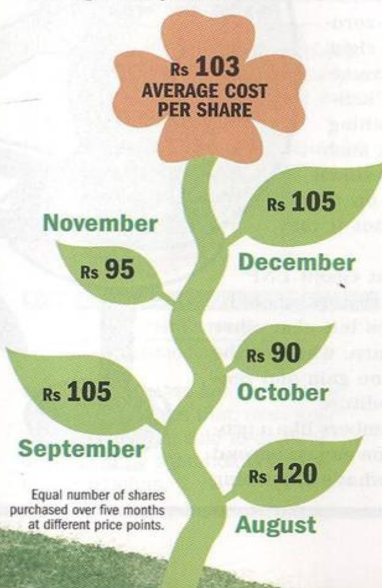
Equity SIPs offer you the advantage of reduced volatility risk and disciplined investment without any additional burden or limitations. Shares bought through SIPs are no different from the ones bought in the traditional cash segment. Once the shares are in your demat account, you can sell or mortgage them freely as per your requirement.

GAINS & PAIN

Gains	Pain
☑ Minimise volatility risk	☒ Diversification may get ignored
☑ No additional cost for buying shares via SIPs	☒ Greater market risk than mutual funds

SPREADING RISK

See how staggering the purchase of shares helps average out your cost.



Equal number of shares purchased over five months at different price points.

"It is important to keep track of the stocks in your portfolio and not be passive about your investments. One should always invest based on sound research and be open to exiting stocks which have a negative outlook for the future," says Pallav Sinha, president and chief executive officer, Fullerton Securities and Wealth Advisors.

"An equity SIP is meant for a long-term investor and the choice of stocks should be made based on the fundamentals of a company. If the market (and, in turn, the company stock) does not do well for a brief period, this should not be a cause for worry for the investor if the long-term growth prospects of the firm are good. One should continue with the SIP as entering at a lower price keeps reducing the average buying price for the stock which in the long term would prove fruitful," Sinha adds.

COST FACTOR

Investing in equities through SIPs does not require any additional cost other than the regular brokerage charges and the cost for maintaining a demat account for holding your shares in the electronic format.

"As long as the brokerages paid for buying stocks through equity SIPs are lower than the total cost of investing in an equity mutual fund (the cost of managing the fund is usually around 2% and the exit charge payable in case the fund units are redeemed within one year is around 1%), investors will enjoy a cost advantage. However, a few brokers charge a fixed brokerage per transaction involving smaller monetary amounts. In such cases, equity SIPs may be more expensive than a mutual fund," says Jayant Pai, vice-president and certified financial planner, Parag Parikh Financial Advisory Services.

"You should opt for equity SIPs in four cases: when you are not aware about the market valuation; when you don't know when to enter and exit the market; when you cannot invest a lump sum; and when you are investing for the long term (1 year or more) and you are not sure about the timing," says Hiren Dhakan, associate fund manager, Bonanza Portfolio.

Now that you know how equity SIPs compare with traditional share transactions and mutual funds, jump on to the high-growth bandwagon with the instrument most suitable for you. Do not defer your investment decisions any further. MT