

A COMPARATIVE STUDY OF SYSTEMATIC INVESTMENT PLAN AND LUMP SUM IN MUTUAL FUND

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ABSTRACT

There is a lot of confusion among common people, who are intended to invest their surplus fund in stock market through mutual fund, whether they should opt for systematic investment plan (SIP) or lump sum investment plan (LIP), if they have both the provisions. It has been told, while investing in stock market either directly or indirectly, that we should not try to time the market rather we should try our time in the market. An effort has been made to compare the SIP with lump sum investment. Nine popular mutual fund schemes one each from different classes of companies have been selected for the purpose.

Keywords: Mutual fund, Systematic investment plan, Net Asset Value, Asset under Management, Discounting rate .

INTRODUCTION

This project report entitled ‘A comparative study of Systematic Investment plan and Lump sum in Mutual fund’ is conducted to find out advantageous of SIP and Lump Sum plan in mutual fund.

Saving a part of one’s income is most essential for one’s own well-being as it acts as a safeguard in time of need. When one put away a regular amount of money, it is best to invest it to maximize the gain. There are a number of investment opportunities to do this. In today’s complex financial market, it is becoming increasingly difficult to select the right investment

avenues. Each investment carries some risk and that it is vital to choose wisely. One make investment for a higher return than what he can get by keeping the money in a commercial or cooperative bank or even in investment bank. But the return is higher if the risk is also higher. Return and risk go together and they have a trade-off. All investment is risky to some extent or other. The art of investment is to see that the return is maximized with the minimum of risk, which is inherent in investment.

Objectives of the study

- To analyze the returns of Systematic Investment plan and Lump Sum Investment plan of selected mutual fund schemes.
- To compare the Systematic Investment plan and Lump Sum Plan in mutual fund for the last five years.
- To analyze the performance of systematic investment plan and Lump Sum plan for five years.

Research methodology

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. When we talk of research methodology we not only talk of the research methods but also consider the logic behind the methods we use in the context of our research study and explain why are using a particular method or technique and why we are not using others so that research results are capable of being evaluated either by the researcher himself or by others.

In this study, I have selected 9 mutual funds of 9 different fund families but of the same growth scheme. Thus it will help in comparison and also the data of five years are collected and values under the two plans are calculated. The analysis of those values helped to find the returns for comparison.

Literature review

Rajesh Chakrabarti (2009)¹⁹⁵ examined the Asset Management Industry (AMI) in India. He reported that AMI consists of a vibrant and rapidly growing mutual funds sector, an insurance sector that is dominated by unit-linked insurance plans, and Venture Capital Funds, both domestic and foreign. Also Foreign Institutional Investors form a category that pool foreign retail or institutional funds and invest in Indian debt and equity. Private Equity funds - both domestic and foreign - constitute a booming segment as well. In the last decade or so, this industry had witnessed a wide range of regulatory changes that have brought about increased competition and a very impressive growth rate. Mutual Funds and Insurance sectors had been opened up to private players only 16 and 8 years ago respectively. Venture Funds had been allowed even more recently. The Indian equity market with its remarkable bull run throughout most of this decade right up to the crisis had boosted major growth in the asset management industry. He also reported that India stands poised at the threshold of major regulatory changes that can open up new segments like Real Estates and Pension Funds to retail investors and private and foreign fund managers. The rapid growth of the sector was likely to continue once the dampening effects of the ongoing crisis are behind us.

D.N.Rao (2010)¹⁹⁶ examined the portfolio turnover strategies of selected 9 equity/growth oriented mutual funds, the effect of portfolio turnover ratio on fund performance and the relationship between Portfolio Turnover Ratio and Fund performance for a period of three years during 30th September 2006 to 30th September 2009 in six half-yearly periods. The effect of change of Portfolio Ratios on Absolute Fund Return (AFR) and Performance of Fund relative to Benchmark index (FPB) was analyzed. The findings of the study were of mixed nature and lacks evidence that was statistically significant to suggest that increase in portfolio turnover ratio would result in enhanced performance of the fund which implies that high portfolio turnover ratios did not necessarily improve the fond performance consistently over a long time period. There was no conclusive evidence to suggest that there was significant relationship between portfolio turnover ratio and measures of fund performance used for this study, absolute fund return and fund performance relative to Benchmark index

Results

- Investing Lump sum at the right time offer better returns than systematic investing

- A person investing in Lump Sum will get the best returns if the NAV keeps rising from the time he invests. He will also lose the maximum if the NAV keeps falling. By the investing through SIP one can avoid the worst situation in the long run it is always safer to invest in SIP
- Large cap funds, Franklin India Opportunities Fund Growth (G), Kotak Select Focus Fund Regular Plan – Dividend, SBI Blue Chip Fund – Growth are effective in both SIP and Lump Sum plan investment. So investment in above mentioned funds good returns.
- Balanced funds, HDFC Balanced Fund, ICICI Prudential Balanced Advantage Fund, TATA Balanced Fund are more effective in Lump Sum plan than SIP investment plan.
- Mid and Small cap funds, L and T Mid Cap Fund, UTI Mid Cap Fund – Growth, Reliance Small Cap Fund – Growth are not much effective in SIP investment plan. So the investors those who are investing in those funds should take some care about growth of the fund.
- Awareness programs regarding SIP is very important
- The mutual fund companies should concentrate innovative schemes for SIP.

CONCLUSION

My study on the topic “A Comparative Study of Systematic Investment Plan and Lump sum in Mutual fund” was really a good experience. During this project we find that mutual fund is currently a highly trusted investment instrument. Main advantage to mutual fund is diversification, by minimizing risk and maximizing returns. Specific features of mutual funds

include liquidity, transfer of money, purchase of units and high competition. Investment in mutual funds is highly liquid as funds are required to redeem shares daily.

Systematic investment plan is a simple process of investing the same amount of money every month over a extended period of time regardless of whether the market up or down. Systematic investment plan is more helpful for the investors to invest in mutual fund without sufferings. The main advantage of systematic investment plan is the advantage of rupee cost averaging from my study. I found that investors are getting a moderate return through the SIP investment. Systematic investment plan will reduce the risk when the market is volatile.

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