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RESEARCH ARTICLE

RISK REDUCTION OF SYSTEMATIC INVESTMENT PLANS

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ABSTRACT

Systematic Investment Plan is a recurring investment pattern. By implementing this style of investing, a great deal of risk can be reduced. The paper's main objective is to understand how a systematic investment plan works and the importance of awareness of this style of investing amongst young inexperienced investors. It also shows how inculcating a disciplined routine of investing could decrease risk and help save a lot of money. Through primary data collection in this study we also try to understand the preference and choices of young investors and the risk they are willing to take. A detailed mathematical comparison is shown between a systematic investment plan and the traditional lump sum investing. Although it may affect the upside return too, majority of people who do not have advanced knowledge and working of the markets should make it a must to adopt this pattern of investing.

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INTRODUCTION

A Systematic investment plan also commonly known as SIP is a frequency based recurring investment plan. It was introduced in India by Franklin Templin nearly 20 years back. An SIP deals directly with an instrument like equity, mutual funds and other instruments based on the risk appetite and track record of the investor. It is a great way for a beginner to enter the field of investments and is best suitable for long term investments. Systematic investment plans attract conservative investors, traditionally retail investors. A retail investor is a person who invests for his or her personal account, the size of investments are usually smaller in size and value as compared to an institutional investor or a bank etc. The plan works in a way that a bank recurring deposit works. Dhiendra Kumar (2017). The investor shall invest a fixed amount recurring every month, quarter, year or as he demands in an underlying instrument which has prospective growth. This recurring deposit over time will not only create a strong position in the underlying but also increase the value and size of the investment. This is bound to average out any losses in the underlying. Capital protection is not definite as risk involved is directly related to the stability in underlying instrument. The plan helps moderate the volatility in the market from affecting the position and mindset of the investor. Banks and other financial non-banking institutions carry out automatic transactions on the date that investor decided, this makes it convenient and eliminates the risk of forgetting to make the payment on the particular date.

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Systematic investment plans have proved to be a safer way of investing as opposed to investing in one tranche or Lump Sum method. The following report shall contain Mathematic calculations, Graphs in order to prove the effects of a systematic plan and a questionnaire based research regarding investor demographic and risk appetite.

REVIEW OF LITERATURE

A comprehensive review of theoretical and factual studies in the areas related to risk of investments and mindset of retail investors was carried out. The literature review covered areas of the investment landscape of India, equity investment decisions and that of retail investors in particular, determinants of these decisions, the mindset of risk and return of retail investors and their investment satisfaction. The following review is a result of systematic search of relevant literature. Library of CMS, Jain University was used and multiple web resources including Shodhganga, websites of reputed financial institutions, Regulators and Boards were extensively used as major sources to go through several related published articles, books, journals and theses. (Barber and Odean 1999), tested two behavioral finance theories and observed, as expected, that retail investors are more accustomed to sell their winners and hold their losers. Moreover on account of their overconfidence, retail investors trade to their disadvantage. These behaviors are bound to reduce investor well being, understanding them is important for retail investors and also for those intermediaries who advise them. Barber and Odean, "The Courage of Misguided Convictions", 1998. (Vyas and Moonat, 2012) studied the perception and behaviour of mutual fund investors in Indore, Madhya Pradesh, India. The study was based on 363 mutual fund investors. The results have revealed that most of the respondents invested in equity options with a time range of one to three years. Although 73 percent of the investors were aware about the risk associated with mutual funds yet only 53 per cent investors analyzed the risk. Lump sum investment was the most preferred and used mode followed by Systematic Investment plan. Gold was 35%.

The most important option among investors and mutual funds ranked 6th in this regard. Further mutual funds got an average score on all parameters like safety, liquidity, reliability, tax benefits and higher returns.Vyas and Moonat, "Perception and Behaviour of Mutual Funds Investors in Indore, Madhya Pradesh", 2012. (Blanchett and Straehl , 2015), have found substantial/sizeable differences in the optimal& efficient allocation for a retail investor's wealth with the inclusion of other assets, the major differences occurring when non-financial assets form a major portion of assets from a perspective of overall wealth. Blanchett and Straehl, "No Portfolio Is an Island", 2015.

Need for study

The need for this study is to analyze and prove the effectiveness and importance in awareness of Systematic Investment Plans, To Prove that Systematic investment plans are a valuable way to facilitate risk reduction and the relationship between demographic profile and risk appetite.

Objectives of study

- Investment Pattern
- Demographic Profile Affecting Risk Appetite
- Preference of investments and expected return
- To Prove that Systematic investment plans are a safer way to invest. It facilitates risk reduction.

MATERIALS AND METHODS

First, an exploratory research was conducted in order to gain insight about the field of investment. A critical review of literature and other data from multiple reputed sources.

From the above we arrive at our research hypotheses

"An SIP plan facilitates risk reduction in the long term as compared to lump sum investing"

The research gains information from both primary and secondary data. A survey was used to gather demographic information and investment patterns through a questionnaire while the risk reduction was proved with the help of an SIP calculator, mathematically proved with the illustration of graphs by taking a real equity stock.

ANALYSIS AND INTERPRETATION

The primary data for investor demographic and risk appetite was collected with the help of a questionnaire through google forms.

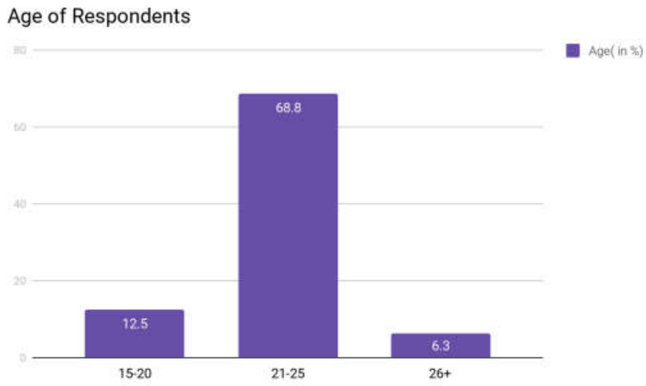

Fig. 1. Graph representing "Age of respondents"

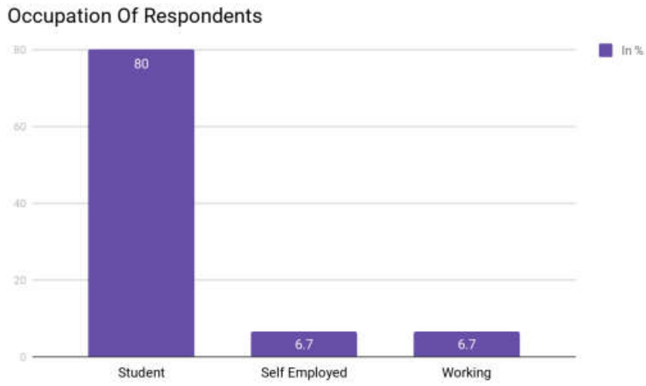

Fig. 2. Graph representing "Occupation of respondents"

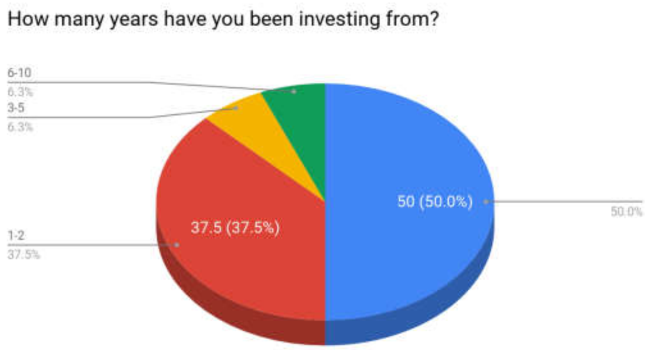

Fig. 3. Pie Chart representing the years since the respondent has been investing

Here, the respondents were asked about the time horizon since their first investment.50% of respondents have less than one-year experience (Blue) followed by 37.5% had been investing for 1-2 Years. 6.3% have been investing for a period of 3-5 and 6-10 Years

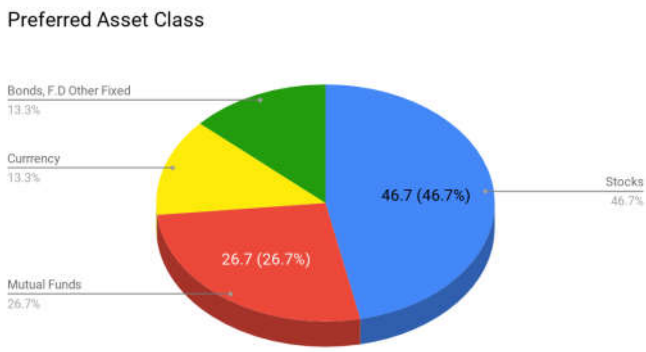

Fig. 4. Pie Chart representing the preferred asset class of the respondents

Stocks are the most popular asset class at 46.7% followed by mutual funds at 26.7%, currency at 13.3% and Fixed Incomes at 13.3%

Risk Appetite

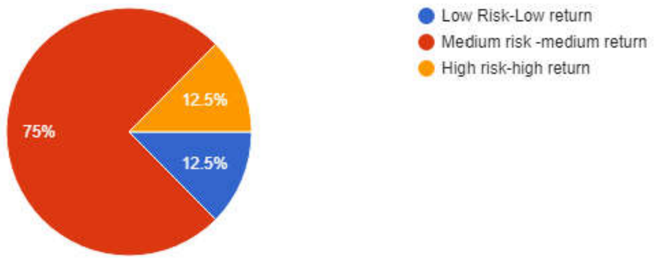

Fig 5. Pie chart representing "Risk Appetite of respondents"

75% of the respondents preferred a medium risk-medium return approach with 12.5% high risk-high return and 12.5% Low Risk-Low return.

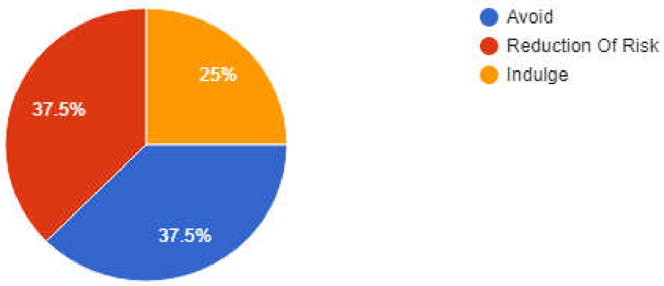

Fig 6. Graph representing preference of strategy while investing in stock when markets are volatile

Here, the respondents were asked how they would deal with a volatile stock, 37.5 percent of people chose to avoid the risk while the other 37.5% preferred reducing the risk. 25% preferred taking a risk.

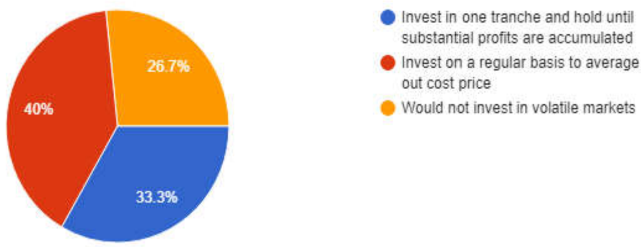

Fig. 7. Pie chart representing choice of investment strategy

40% of people prefer investing regularly in order to average out returns/losses, 33.3% preferred to invest in one tranche and wait until substantial profits are accumulated.

Systematic investment plan (SIP) vs Lump Sum Investing

In this study, we take Bharti Airtel as the Stock for representation purpose, as the stock had a bearish run over the past couple of years. Time period of 10 months is taken.

SIP type = 10 Shares of Bharti Airtel at a particular date on a monthly basis.

SIP Start = 21st November 2017

Month	Traded price	No. of shares	Total amount
21st November 2017	499.9	10	4999
December 2017	520.57	10	5205.7
January 2018	486.54	10	4865.4
February 2018	419.45	10	4194.5
March 2018	418.60	10	4186
April 2018	400.75	10	4007.5
May 2018	360.20	10	3602
June 2018	368.20	10	3682
July 2018	345.55	10	3455.5
August 2018	372.95	10	3729.5
Total		100	41927.2

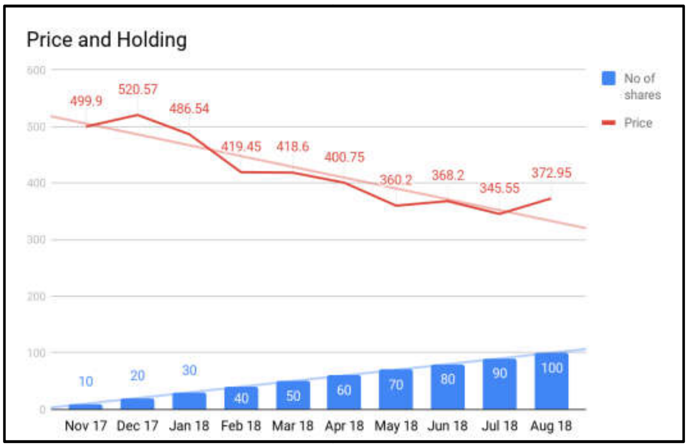

Fig. 8. Graph representing Price and Holding

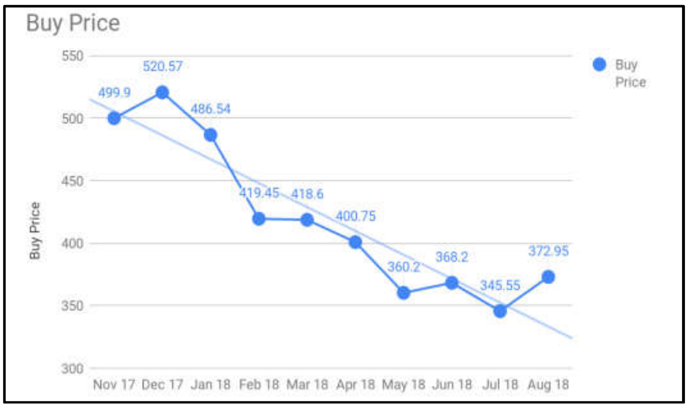

Fig. 9. Graph representing Buy price over 10 Months

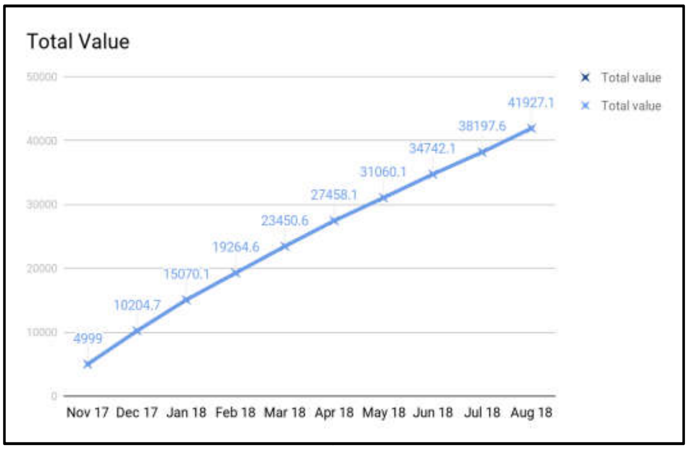

Fig 10. Graph representing "Total Value"

By the representation of the above graph, we can see that the multiple tranche investment has increased the total value of investment over the year while keeping our final investment value at Rs.41927.1The total loss amounts to Rs. 8,062.9

Analysis of Lump Sum Method

Considering we had bought all the 100 shares in one tranche it would have costed Rs. 49,990.The Cost price and No of shares shall be constant throughout the year. Except that the value will appreciate or depreciate depending on the market conditions.

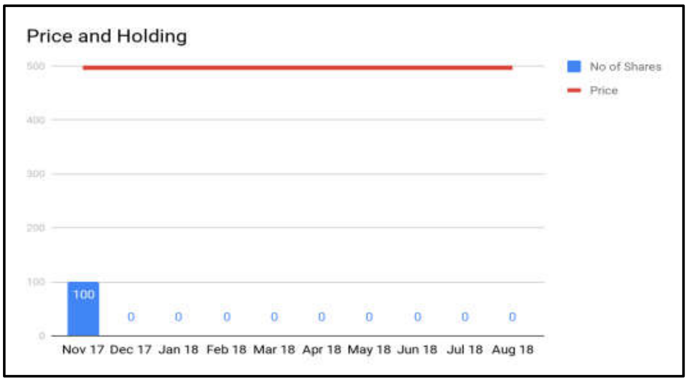

Fig. 11. Graph representing "Price and Holding"

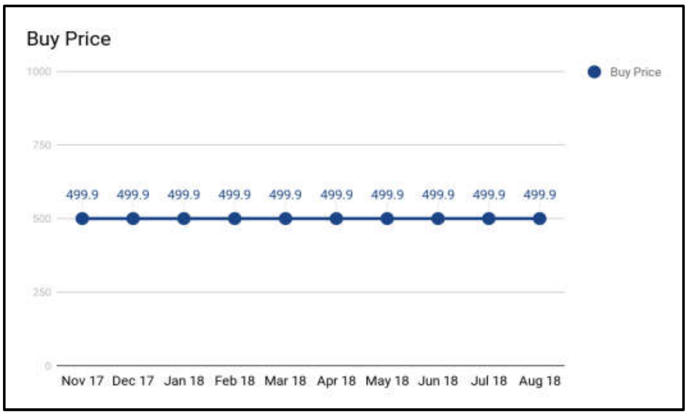

Fig 12. Graph representing "Buy price"

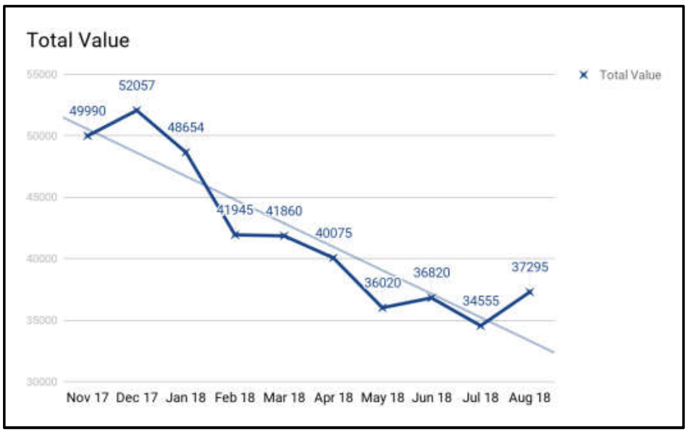

Fig 13. Graph representing "Total value"

By the representation of the above graph, the total value of the investment of 100 shares has fallen from Rs. 49,990 to Rs. 37,295.The total loss amounts to Rs. 12,695

Conclusion

The survey conducted included majority belonging to the student background, with 0-2 years' experience of investing experience. 75% of the respondents choose medium risk-medium return and prefer investing regularly instead of lump sum and completely avoiding volatile products. With their preferred asset class being equity, which is one of the most volatile asset class. Adoption of a systematic investment plan in the equity market where high volatility is quite common is a great way to reduce risk. It is recorded that younger people with lesser investing experience, tend to take more risk than others. In order to prove the risk reduction capability of a systematic investment plan a volatile stock was taken as an example. The Loss when money invested in a single tranche amounts to 25% of the investment whereas the SIP Investment has a loss of 16% of the investment. By the above analysis we can state that Systematic investment plans are a great tool in risk reduction, it helps eliminate market volatility for medium to long term investments and its awareness has to be created among millennials.

Scope of the study

The main objective of the study is to prove that an SIP is a suitable strategy for all demographics. To analyze the investment patterns and styles of retail investors and risks that come with it by using primary data collected from people belonging to different regions, age, occupation etc. In this research investors who have exposure to the equity markets and have invested in equity shares.

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