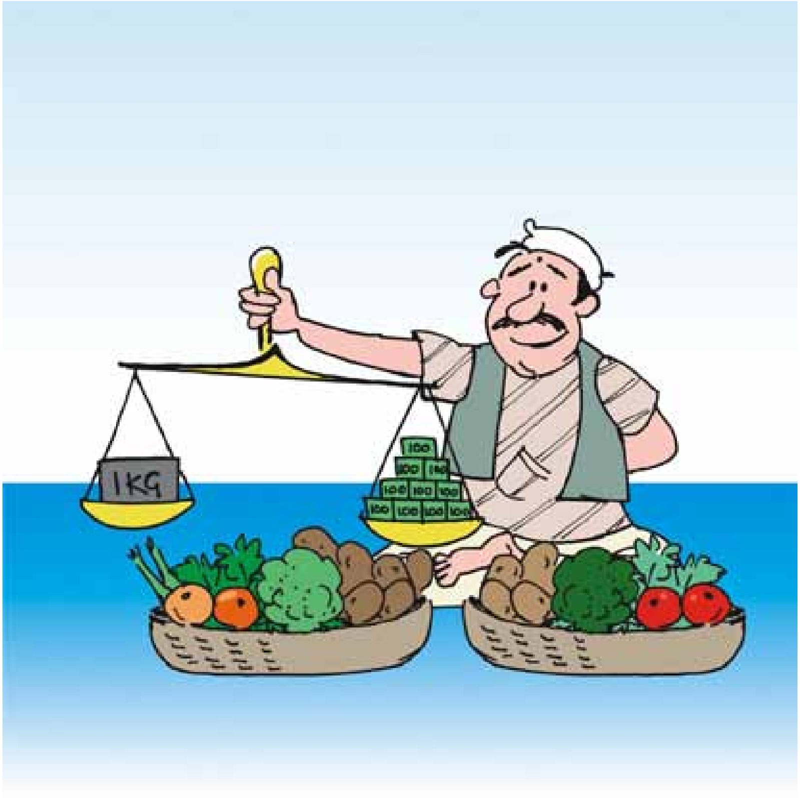
The Fidelity SIP Guide

Fidelity™
WORLDWIDE INVESTMENT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Think big. Start small

We all need to provide for something. It could be children's education, buying a home or planning a comfortable retirement. But how do you get started, especially if you don't have a large sum of money? The simple solution is to begin a SIP or Systematic Investment Plan. Just as you can buy a car or a home by paying monthly instalments, you can invest as little as Rs 500 at a time for your future and benefit from the growth potential of mutual funds.

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APNA RAJU KAISE BAN GAYA GENTLEMAN?
SIMPLE! ZERO-TO-HERO IN EASY STEPS

1. Why choosing a SIP is a smart move

If you want to put aside just a small amount regularly, you can plan a SIP as part of your monthly budget. In fact, using an auto-debit facility can make for investing convenience. On the other hand, if you have a lump sum, but do not want to commit all of it, a SIP can be a smart move. Not only does it help you to build your portfolio one step at a time, it also helps you to ride over market volatility and benefit from 'rupee cost averaging': If the market goes up, the units you own will increase in value. If it goes down, your next payment will buy more units.

The power of rupee cost averaging

		LUMP SUM INVESTOR		REGULAR SAVER	
Month	Unit Price (Rs.)	Amount Invested (Rs.)	Units Bought	Amount Invested (Rs.)	Units* Bought
1	20	60,000	3,000	10,000	500
2	18	-	-	10,000	556
3	14	-	-	10,000	714
4	22	-	-	10,000	455
5	26	-	-	10,000	385
6	20	-	-	10,000	500
Total invested (Rs)		60,000		60,000	
Average price paid (Rs)		20		19	
Total number of units bought		3,000		3,110	
Value of investment after six months (Rs)		**60,000**		**62,200**	

The table above illustrates the power of rupee cost averaging. It compares the returns achieved by a lump sum investor and someone who saves the same amount every month for six months.The regular saver finishes with an investment that is worth more than the lump sum investor's after six months - even though the starting price, finishing price and average price are exactly the same. It sounds unlikely but it's true. Check the figures yourself. This example uses assumed figures and is for illustrative purposes only. * Fractional units ignored.

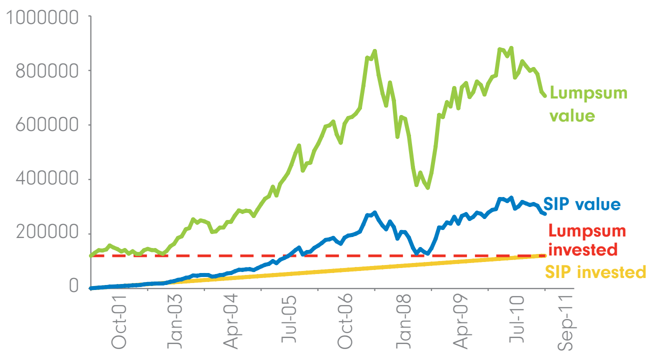

MEOW
NO WHIP, ONLY SIP!

2. Tame stock market volatility with a SIP

When saving for your future, let common sense prevail - stay focused on your financial goals and leave the job of taming market volatility to your SIP. The example below demonstrates how this happens:

On October 1, 2001, two investors began investing in a simulated equity mutual fund. One invested a lump sum of Rs. 1,20,000 (represented by the red dotted line), while the other started a SIP of Rs. 1,000 every month (represented by the yellow line). As you can see, the value of the lumpsum investment plummeted substantially and stayed there for almost three years in a row (represented by the green line). In contrast, the SIP investment experienced a smaller loss and kept growing at a steady pace with the investor buying units at lower prices through the bear market (represented by the blue line). Moreover, by putting aside an amount of just Rs. 1,000 every month, the SIP investor had found an affordable way to gain from the stock market.

SIP versus LUMP SUM



Source: Verity Analytics, Fidelity. Both SIP and lumpsum investments are assumed to be made in BSE Sensex. The SIP depicted in this graph is scheduled for the 1st of every month, or the closest subsequent available date. Past performance may or may not be sustained in the future.

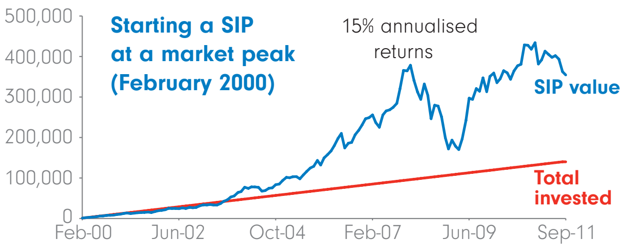

PRACTICE MAKES PERFECT
UUFFFN!
CREAK

3. Discipline is the key

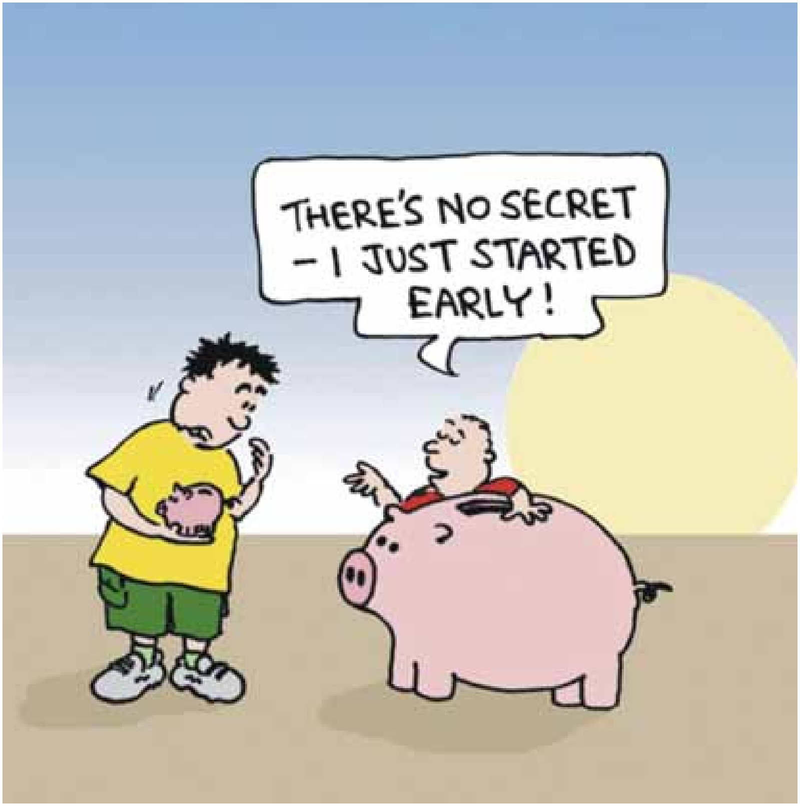
The truth is that no one can predict with consistent success where the market will head next, not even the experts. Hence, the key is discipline and systematic investing helps you to become a disciplined investor. By drip-feeding your savings into the market, you make issues like timing the market and short term volatility irrelevant.

Is there a right time to start a SIP?

When you hear that the Sensex has hit record highs, you may feel as concerned about starting a SIP as investing a lump sum. On the other hand, you may feel anxious if the market hits a turbulent spot. So how can you pin-point the best time to begin a SIP? The answer is simple: Choose any time! But you don't need to take our word for it. The example below assumes that an investor began a SIP of Rs 1,000 every month in a simulated equity mutual fund from the stock market’s peak of February 2000 through March 2010. Given that this tech-driven high was followed by one of the steepest falls in the history of the Indian stock market, conventional wisdom would not have advised beginning an investment at this point. However, the graph below tells us quite a different story. Two years of being mired in a bear market actually meant two years of buying units at low prices. When the market took off in 2003, the SIP investor's patience and discipline would have been suitably rewarded.



Source: Verity Analytics, Fidelity. SIP performance is based on the assumption that investment is made in BSE Sensex. The SIP depicted in this graph is scheduled for the 1st of every month, or the closest subsequent available date. Past performance may or may not be sustained in the future.


THERE'S NO SECRET – I JUST STARTED EARLY!

4. Start early - add more power to your money

The sooner you begin investing, the more time your money will have to grow because the power of compounding works on your investment. If you delay, you will almost certainly have to invest much more to achieve a similar result.

The example below shows you how you can gain from compounding and multiply your money, month after month, year after year.

The difference time can make

If you started investing Rs. 5,000 a month on your 40th birthday, in 20 years' time you would have put aside Rs. 12 lakhs. If that investment grew by an average of 7% a year, it would be worth Rs. 25,52,994 when you reach 60.

If you started investing ten years earlier, your Rs. 5,000 each month would add up to Rs. 18 lakhs over 30 years. Assuming the same average annual growth of 7%, you would have Rs. 58,82,545 on your 60th birthday - more than double the amount you would have received if you had started ten years later! The bottom line - your investments gain most from compounding when you have time on your side.

We're here to help

Fidelity has a long history of helping people meet their financial goals. We have a range of brochures about our products and services and a number of free guides on key investment topics. Please contact us if you would like copies of any of these publications or more information.

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