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Start Direct Equity SIPs in Large-caps only

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Equity analysts claim that accumulating a few select stocks in a phased manner is the best way to invest now given the current market uncertainties. The logic is simple: the market is likely to be volatile for some more time due to a host of issues like the so-called policy paralysis, a possible drought, the problems in the Eurozone, among others. In such a scenario, if you keep accumulating stocks that are bound to perform well, you can retire to Goa when the market enters a bull phase. Using the direct equity SIP method is suggested as the best way of buying individual stocks over a period of time. Many online brokerage houses like ICICI Securities, HDFC Securities, Sharekhan, Geojit BNP Paribas, among others, offer direct equity SIP option to their investors. “Given the current volatile markets, investors need to adopt a stock specific approach,” says Kartik Mehta, AVP (research), Sushil Finance. “Equity investors should accumulate well researched large-cap stocks over a period of time using direct stock SIPs,” says Aseem Dhru, MD & CEO, HDFC Securities.

EQUITY SIP VS MUTUAL FUND SIP

Very often investors confuse a direct equity SIP with a mutual fund SIP. However, there is a huge difference between the two. In a direct equity SIP, you are buying a single stock regularly; whereas in an equity mutual fund, the fund manager builds a portfolio of stocks. Since a direct equity investment is in a single stock, it carries a higher risk. “If your call on a stock goes right, your returns could be high and viceversa,” says Satish Menon, executive director, Geojit BNP Paribas Securities. Compared to this, a mutual fund has a diversified portfolio, which reduces the risk.

In a direct equity SIP you have to keep track of the stock that you have invested in on a regular basis, watch out for quarterly results and corporate actions which can affect the performance of the company. At times if the stock becomes expensive you may even have to consider stopping the SIP in that stock and may have to hunt for another stock. On the other hand, an equity mutual fund is a passive investment where the fund manager will take care of all these things. An investor needs to only monitor the fund, which can be done once in a quarter. Tracking individual stocks for an individual is a tough job, since it is impacted by a number of local or global events. Not many favour investments in direct equities. “Averaging would work well in a portfolio of stocks and not in the case of a single scrip,” says Vishal Dhawan, founder, Plan Ahead Wealth Advisors. For example, many real estate stocks fell by the wayside after the 2008 boom ended. Certainly you can’t average your investments in those stocks. “If something were to go wrong in a stock, as an individual it will take time to react and form a decision on the same. On the other hand, a fund manager would have better access to resources and would take a better informed decision,” says Sumeet Vaid, founder CEO of Freedom Financial Planners. Also, if you change your view on a stock and decided to discontinue your SIP, you will also need to decide what to do with the shares already accumulated through the SIP.

Also, it may not be possible to do an equity SIP in every listed stock due to poor liquidity and price fluctuations. Hence, it is recommended only for large-cap stocks, which are well traded and have high liquidity. So if you happen to be bullish on a particular small-cap stock, doing a direct SIP may not work there. On the other hand, if you are bullish on the mid- and small-cap space, there are mutual funds which you can invest in to ride the boom.

However, keep in mind the transaction charges. Equity SIPs are marginally cheaper as you pay only the brokerage which could be 30-60 basis points. On the other hand, an equity mutual fund can have an expense ratio which could go up to 250 basis points for a year. “A direct equity SIP is equivalent to a direct stock market investment and it requires active involvement. Hence it works well for investors who understand equities well and are ready to take on higher risk for higher returns,” says Satish Menon.

EXECUTING A STOCK SIP

Direct equity SIP works well if you trade online. “All you have to do is login and create a request for the amount which you want to invest in a stock and the period for which you want to do so,” says Vishal Gulechha, head of equity products at ICICI Securities. You can choose a single stock or a basket of stocks in which you wish to do an SIP. In the case of ICICI Securities, you can do an SIP for two years and then renew it after that. You can alter the amount or terminate the SIP in case your view turns negative on a stock.

Brokerage firms recommend stocks on which equity SIPs can be done to their investors on a regular basis. For example, some of the stocks in which ICICI is recommending a direct SIP include SBI, L&T, TCS and Axis Bank.