



## **Explained: Should you continue your SIP?**

**SIP Mutual Funds 2020: If you can, yes. Those in distress can consider reducing ticket sizes or the option to 'pause'. To build a corpus for contingencies, make fresh investments in debt funds.**

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Across sectors and industries, the [Covid-19 pandemic](#) has resulted in salary cuts and retrenchments, and there are concerns over the stability of future incomes both for salaried and self employed individuals.

The fragility of the economy, dwindling company revenues, and volatility in the markets, along with the long, uncertain wait for a medical solution to Covid-19 have raised anxiety among individuals who want to keep liquidity at hand to meet any future contingency.

For many, the big dilemma is whether to continue with their monthly mutual fund investments.

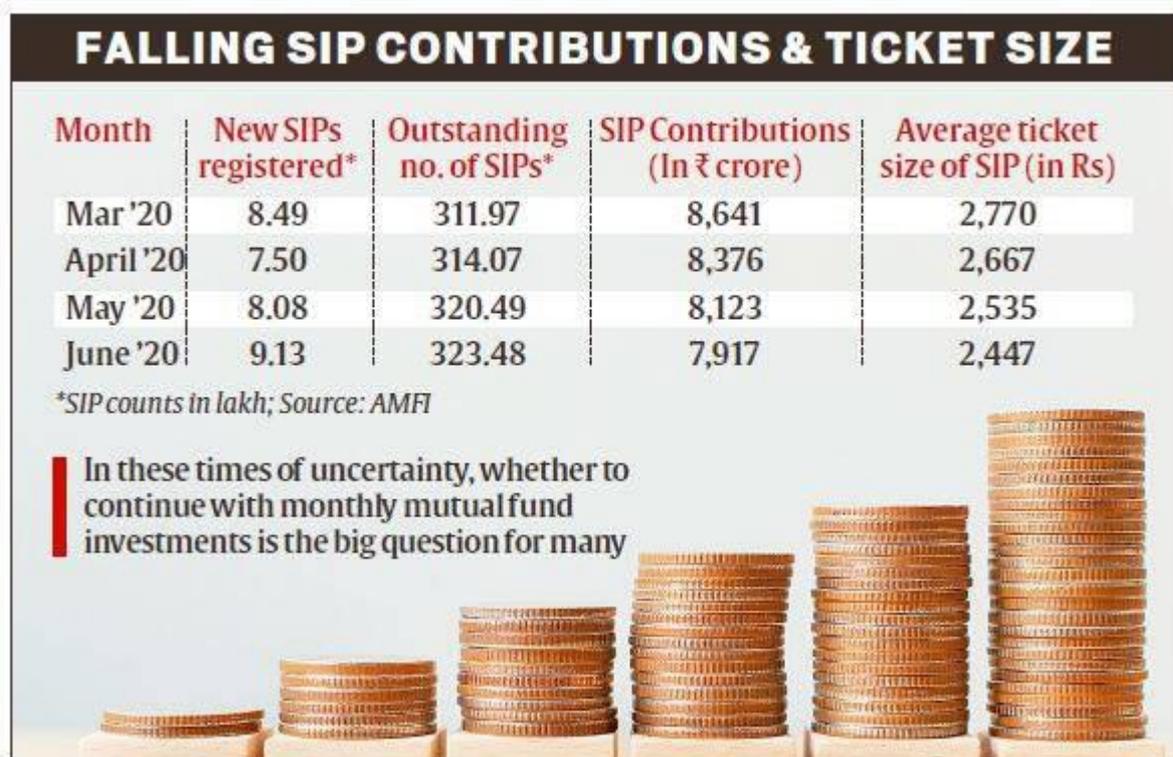
### **Should you invest in the markets?**

Even as the fall in markets has opened a window of opportunity for investors to invest directly in shares, one must be very careful about which stock to pick. This makes mutual funds the preferred mode when it comes to taking equity exposure. But the question that arises is: should you invest in equities at all in these times?

There can't be one answer for all, especially at this time. While those who have certainty of income can not only continue with their existing investments but also look to increase them (as the expenditure component would have come down), for others, the situation is tricky.

With uncertainty all around — from recovery in the economy to the sustainability of jobs or salary levels — the risks associated with equities have only gone up. The fact that equity investments are meant for at least three to five years, means investors should park only that component of their income into equities, which they may not require for the next five years. One needs to take a very pragmatic call.

An investor who is unsure about the sustainability of her job, and foresees the possibility of a further cut in her salary, should look towards building liquidity for current times — and equity assets do not fit the bill.



### Should you continue with your SIPs?

A fall in equity markets on account of any adverse global or domestic event, amidst the ongoing pandemic may just make it unfeasible for an investor to withdraw from her equity portfolio, as that would mean booking losses on capital investment.

Since these are times to build liquid reserves, one advice is for wary investors to move their SIPs from the equity to the debt category.

"Since investors may be looking to protect the capital and maintain liquidity, they can move their systematic investment plans from equities to debt funds. As the idea is to build contingency provisions, the best suited would be ultra short-term funds and low duration funds. Within that, rather than tracking past performance, investors should go for schemes that have the highest exposure to AAA rated papers, and have a lower expense ratio," said Vishal Dhawan, founder and CEO of Plan Ahead Wealth Advisors.

Other than stopping their incremental SIP inflows, investors can consider two other options: if they are concerned about their cash flows for the next two to three months, they can either go for a three-month pause option with their mutual funds, where the money won't be debited from their account for three months — or, they may go for the option of reducing the ticket size of the SIP. So, one can reduce the SIP amount from Rs 10,000 a month to say, Rs 5,000 a month, or a lower sustainable amount. While this will reduce the monthly outgo, it will also ensure that you continue to derive some benefit from lower net asset values on account of the fall in markets.

#### **What should the less impacted ones do?**

Individuals who are not too constrained on the income front, and who have seen their disposable incomes rise on account of the fall in monthly expenses, may not only continue with their existing equity SIPs, but may even look to direct their additional savings into equities.

An investment in current times may mean a higher accumulation of units on account of the drop in net asset value of MF units – and so, a rise in markets at a later date would bring significant gains for investors.

The priority, however, in current times should be to build at least six months' contingency funds that are sufficient to meet EMI expenses, school fees, and household expenses.

#### **What should you do with your existing equity investments?**

Even as your cash flow constraints may force you to close your incremental monthly investments in equity schemes, one must avoid liquidating those investments to meet expenses or other liabilities.

One must look at one's investment portfolio including fixed deposits, gold, traditional insurance investment plans, debt mutual fund investments, and

investments in small savings — and it is advisable to withdraw from one of them rather than pulling out of equity schemes.

Even though they have bounced back significantly, markets are still trading around 12 per cent lower than the highs they had hit in January 2020 — and many investors who would have started their SIPs 2-3 years ago may still find their capital in the negative.

For example, if an investor started her SIP in a scheme tracking the BSE Sensex and invested towards the end of every month over the last two years, her average cost of investment would be higher than the current redemption value, and she may thus incur a loss on her capital investment.

It is important to remember that equity SIPs will work for you if investments are disciplined and redemptions are planned. So book your profits when the markets are at a high, or when your financial goal has been achieved.

It is for times like these that investors are advised to have a diversified portfolio across asset classes — equities, fixed deposits, gold, debt mutual funds, small saving schemes — and not put all their eggs in one basket. It is also important to seek the advice of a certified financial advisor.