

# Lump sum vs SIP, which Mutual Fund suits you best?

When it comes to investing in Mutual Funds, investors have the option to invest via SIPs or lump sum. But what suits you best?

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Mutual funds are professionally managed investments in which fund managers pool funds from multiple investors and purchase diversified securities. The two primary modes of payment in any mutual fund program are 'Lump sum' and 'Systematic Investment Plan'.

"For goals like retirement that are more than 10-15 years away, it is possible to consider using either lumpsums or SIPs depending on cash flows and corpus availability. For investors who are investing for goals which are less than 10 years away, SIPs/ STPs are preferable. The type of mutual fund scheme also has an important role to play for example lumpsums in

balanced advantage funds/dynamic asset allocation funds and debt funds may not require a SIP whilst investing in equity funds- domestic or international may be best done through SIPs to get the benefit of rupee cost averaging," says Vishal Dhawan, Board Member, Association of Registered Investment Advisors (ARIA).

So which method suits you best? Find out.

## Lump sum

The lump sum investment method is the way in which an investor puts in a large amount of money in one installment in a mutual fund program. Lump sum investments are preferred by investors with significant discretionary money and healthy risk tolerance.

### The pros of investing a lump sum in mutual funds:

**Convenience:** Pay only once and there is no hassle of paying again and again.

**Suitable for people with irregular income:** This payment method is well suited for people who do not have a fixed or regular source of income.

**Ideal for long term:** It has been observed that stock markets across the world have gone through a general uptrend, so keeping that in mind, Lump sum amounts are favourable for long term investments.

### The cons of investing via lump sum method in mutual funds:

**Market Uncertainty:** Lump sum investments are sensitive to market timing. Investors might be at a loss if markets fall after they have invested their lump sum amount

**Not ideal for small investors:** Since small investors might not have large sums of capital at their disposal, the lump sum approach is not ideal for them.

**Not ideal for short term:** Due to the volatility in the markets, the lump sum approach is not ideal for the short term.

## Systematic Investment Plan (SIP)

Whereas, in a systematic investment plan or SIP, investors make regular, equal contributions to a mutual fund over an extended period of time. This method of investing in mutual funds is often opted for by risk-averse investors.

*The pros of investing in SIP:*

*Rupee Cost Average:* As opposed to a single lump sum transaction, the Rupee Cost Averaging technique leads to lower average cost of the investment over time.

*Small amount required:* Investors can start with small amounts and do not have to put in huge amounts to see huge returns.

*Reduced risk:* In the case of SIPs, since small investments are made over a long period of time, the risk exposure is relatively less.

*The cons of investing in SIP:*

*Inconvenience:* Investors have to constantly keep investing fixed amounts of money, this can become an inconvenience.

*Not ideal for growth phase:* If investors start a SIP during a market boom, the profits would keep reducing constantly.

*Not suitable for people with irregular income:* This form of investment strategy is not suitable for investors with irregular source of income because recurring deposits of fixed amounts are made.

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