SIP Mutual Funds 2020

What is the issue?

- The Covid-19 pandemic 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 one invest in the markets?

- The fall in markets has opened a window of opportunity for investors to invest directly in shares.
- However, one must be very careful about which stock to pick.
- This makes mutual funds the preferred mode when it comes to taking equity exposure.

Should one invest in equities at all in these times?

- Those who have certainty of income can continue with their existing investments and also look to increase them.
- For others, the situation is tricky.
- With uncertainty all around, the risks associated with equities have only gone up.
- Equity investments are meant for at least 3 to 5 years.
- This means that investors should park only that component of their income into equities, which they may not require for the next five years.
- An investor who is unsure about the sustainability of his job and salary should look towards building liquidity for current times.
- Equity assets do not fit the bill.

Should one continue with their SIPs?

- There is a fall in equity markets on account of any adverse global or domestic event, amidst the ongoing pandemic.
- This fall may just make it unfeasible for an investor to withdraw from her equity portfolio.
- Since these are times to build liquid reserves, investors can move their systematic investment plans (SIPs) from the equity to the debt category.

- As the idea is to build contingency provisions, the best suited would be ultra short-term funds and low duration funds.
- Within that, investors should go for schemes that have the highest exposure to AAA rated papers, and have a lower expense ratio.
- Other than stopping their incremental SIP inflows, investors can:

1. Go for a three-month pause option with their mutual funds, where the money won't be debited from their account for 3 months or,
2. Go for the option of reducing the ticket size of the SIP.

What should the less impacted ones do?

- Individuals who are not too constrained on the income front may continue with their existing equity SIPs.
- They may even 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.
- But, the priority should be to build at least six months' contingency funds that are sufficient to meet EMI expenses, school fees, etc.,

What should one do with their existing equity investments?

- One must avoid liquidating the equity investments to meet expenses or other liabilities.

- One can withdraw from investment portfolios like deposits, gold, etc., rather than pulling out of equity schemes.

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

- Equity SIPs will work if investments are disciplined and redemptions are planned.
- So one should book their profits when the markets are at a high, or when their financial goal has been achieved.
- Investors can have a diversified portfolio across asset classes like equities, fixed deposits, gold, debt mutual funds, etc.

Source: Indian Express