

# Stopping SIPs During Market Fall can be Disastrous for Investments

## Expert Take



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It used to be that the main skill an investor needed was to be able to tell good investments from bad. However, it has become amply clear over the past four years that managing one's own reactions to panic and crisis is just as important, if not more so. All indications and data suggest that the number of investors who are investing in equity through the SIP route has grown substantially over the past few years. However, times like the current ones are a potential source of damage to this style of investing. Whenever there is a spate of negative news, or when the stock markets fall sharply over a short period, a certain proportion of investors cancel or pause their SIPs, or don't extend them if the initial SIP period comes to an end.

The emails and the questions that I get generally read something along these lines: "I start-

ed an SIP of 12 months and it just got over. The markets are looking in a bad shape now. So I'm thinking of not renewing it. I will restart later when the markets look better."

Obviously, this is the wrong thing to do, but that's an understatement. It's actually a disastrous thing to do, which can render the whole concept of SIP investments useless, or worse than useless. Investing through SIP is not like a doctor's admonition for exercising or dieting that you drop for a few days and then try to catch up.

You see, investing during the bad times is the central point of SIP. It's the main advantage, the reason why SIP makes sense. In some ways, the whole concept is just an elaborate psychological trick to make you invest when the market is declining. Investors who are smart enough to escape getting tricked are actually not being very smart.

Here's a simple study that I did. Consider a hypothetical investor who has been investing since 1997 in a fund that just tracks the Sensex. The investor has an SIP of ₹10,000 a month and just sticks with that year after year. In the 14 years since he started, he would have put in ₹17.4 lakh into his investment. Today, that investment would be worth ₹48 lakh for a total return of 174% over these years. This is 13% per annum.

Contrast this with an investor



who pauses every time the market crashes.

An investor who responds this way would probably have stopped investing some time in the middle of 2000, when the Sensex had declined to around 4,000 from its peak of 5,900. He would probably have congratulated himself as it drifted lower and then restarted investing when it again approached close to 4,000.

Then again, this investor would have stopped investing after the market started crashing in early 2008, probably by mid-year when it had come close to 15,000 from the Sensex's peak of close to 21,000. This time, this investor would probably have come back in mid-May 2009, likely a day or two after UPA won the election and

the markets zoomed up.

This behaviour, which looks entirely natural, would have pushed down his total returns down to 134% — 11.3% on an annualised basis. Instead of investing ₹17.4 lakh and getting ₹30-lakh return, he would have invested ₹12.3 lakh and got ₹16.5-lakh returns. That is not a small difference.

The moral of the story is clear: We're probably going to have months, if not years, more of panic and crises. However, the only sensible thing to do is to keep investing. Since the point of SIP is to invest when the markets are down, you should actually be glad that you are going to get so much opportunity to do so. I know that sounds like a joke, even a cruel one. But it isn't, it's the truth.