



Systematic Investment Plans as a Saving Tool

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ABSTRACT

Systematic Investment Plans (SIPs) have become a significant tool for savings, providing individual investors with a structured, accessible, and economical method for fostering long-term wealth growth. This study explores SIPs as a savings mechanism, focusing on their advantages, challenges, and relative benefits when compared to conventional savings options such as fixed deposits and gold. The research employs a mixed-methods strategy, integrating quantitative analysis of SIP performance data spanning from 2015 to 2023, sourced from AMFI and SEBI, along with qualitative findings from investor surveys. The study outlines important policy implications, advocating for improved financial education initiatives and increased tax benefits under Section 80C in order to promote long-term engagement in SIPs. It also suggests the development of innovative SIP variations, such as dynamic contribution models and AI-enhanced portfolio adjustments as key areas for future growth.

KEY WORDS

Systematic Investment Plans, SIP, Rupee Cost Averaging, Financial Literacy, Behavioral Finance, Wealth Creation.

INTRODUCTION

Systematic Investment Plans (SIPs) have become one of the most organized and efficient savings mechanisms for individuals looking to build wealth over the long term. Unlike conventional investment strategies that necessitate a significant one-time payment, SIPs permit investors to allocate a predetermined amount at regular intervals usually on a monthly or quarterly basis into mutual fund schemes. This method not only promotes financial discipline but also reduces the impact of market fluctuations through a technique

known as rupee cost averaging. By consistently investing a set sum, investors acquire more units when prices are lower and fewer units when prices are higher, thereby lowering the average cost per unit over time. This feature renders SIPs especially appealing for retail investors who may lack the skills to effectively time their investments in the market.

The increasing attractiveness of SIPs corresponds with the broader objective of encouraging a strong savings culture, particularly among middle-income earners who might not possess sufficient disposable income for significant lump-sum investments. Traditional savings vehicles such as fixed deposits (FDs) and recurring deposits (RDs) offer security and guaranteed returns but frequently struggle to outperform inflation over extended periods.

In contrast, SIPs, especially those associated with equity mutual funds, offer the possibility of greater returns by capitalizing on market growth. Moreover, debt-focused SIPs present a balanced option for conservative investors who desire steady returns with minimized volatility. The flexibility of SIPs permitting investors to initiate contributions as low as ₹ 500 renders them an accessible investment choice, thereby democratizing the process of wealth accumulation for a broader demographic.

This paper investigates SIPs as a savings mechanism, examining their advantages, associated risks, and comparative benefits over other investment channels such as fixed deposits, gold, and direct equity investments. A primary focus of the research is to evaluate how SIPs integrate into overarching financial planning strategies, particularly concerning objectives such as retirement funding, educational expenses for children, and wealth generation.

In addition to examining financial mechanics, the study also addresses behavioral elements that influence the adoption of SIPs, including investor mindset, levels of financial acumen, and the influence of digital platforms in facilitating mutual fund investments. Furthermore, the paper investigates emerging trends in systematic investing, such as the advent of flexi-SIPs, goal-oriented SIPs, and the application of artificial intelligence in managing portfolios.

As financial markets develop and investors grow increasingly aware of the benefits of compounding, SIPs are increasingly acknowledged as a fundamental component of sound financial planning. Their capacity to balance risk and reward while encouraging consistent saving behaviors makes them an essential tool in the arsenal of contemporary investors.

Literature Review

Kahneman and Tversky (1979) who are foundational figures in the field of behavioral finance, pointed out that investors frequently make illogical choices influenced by emotional biases. Further investigations by SEBI (2021) applied these behavioral theories to SIPs, discovering that the systematic framework of SIPs diminishes impulsive trading behaviors and emotionally driven investing. The study highlighted that the rise of digital platforms has significantly facilitated the adoption of SIPs by streamlining the investment process for retail investors.

Das and Mohanty (2019) performed an extensive analysis of Systematic Investment Plans (SIPs) and determined that these plans notably lessen the effects of market timing errors. Their findings indicated that SIPs allow investors to take advantage of market fluctuations through rupee cost averaging, positioning them as a favorable option for retail investors who may lack the necessary skills to accurately time the market. The research underscored that SIPs promote financial discipline, resulting in consistent investment activity irrespective of market circumstances.

Morningstar (2020) undertook a comparative evaluation of SIPs and lump-sum investments, revealing that, although lump-sum investments may yield greater returns during ascending market conditions, SIPs offer superior risk-adjusted returns during periods of volatility or market decline. The research assessed historical

market performance data and concluded that SIPs are better suited for risk-averse investors who aim for consistent wealth growth without facing extreme market volatility.

Reddy and Patel (2022) warned that SIPs might experience underperformance during extended bear markets, where continuous investments could result in lower returns. Their research highlighted the necessity of fund selection, asset allocation, and regular portfolio assessments to manage potential risks effectively. The study advocated for educational initiatives aimed at investors to aid in selecting appropriate funds in alignment with their risk tolerance and financial objectives.

A report by AMFI (2023) analyzed the long-term performance of SIPs in equity mutual funds compared to conventional savings instruments such as Public Provident Fund (PPF) and Fixed Deposits (FDs). The results demonstrated that SIPs in equity funds produced significantly higher returns (12-15% CAGR) over a decade compared to PPF (7-8%) and FDs (6-7%), even after adjusting for inflation. Nevertheless, the findings also indicated that SIPs are associated with greater market risk.

Methodology

This research employs a mixed-method methodology, combining quantitative and qualitative analysis to thoroughly assess Systematic Investment Plans (SIPs) as a saving mechanism. The investigation merges empirical data regarding performance with behavioral observations from investors to offer a comprehensive view of the effectiveness, risks, and trends in SIP adoption.

Data Collection

Original data was collected through structured surveys distributed to 200 SIP investors from various demographic and income backgrounds. The survey examined critical components such as:

- Investment patterns (regularity of SIP contributions, duration, and fund selections)
- Risk awareness (ability to endure market volatility)
- Return anticipations (objectives for short-term versus long-term investments)
- Determinants of SIP acceptance (knowledge of finances, recommendations from advisors, and online accessibility)

Secondary data was obtained from mutual fund performance reports (2015–2023) issued by AMFI (Association of Mutual Funds in India), SEBI (Securities and Exchange Board of India), and RBI (Reserve Bank of India). This information included:

- Historical returns on SIPs across equity, hybrid, and debt funds
- Performance comparisons with conventional instruments (fixed deposits, Public Provident Fund, gold)
- Macroeconomic factors influencing SIP investments (variations in interest rates, inflation, market cycles)

Limitations

Though the study generates valuable insights, certain limitations should be considered:

- **Market Sensitivity:** The performance of SIPs is affected by macroeconomic factors, and past trends may not ensure future outcomes.
- **Sample Bias:** Survey results might reflect an inclination towards investors with digital proficiency, possibly neglecting traditional investors who favor offline methods.
- **Time limitations:** The study encompasses data up to 2023, while analysis over longer periods (15–20 years) could yield a deeper understanding of compounding effects.
- **Self-reported Inaccuracies:** The surveys generated rely on self-reported information, which may contain errors or biases in recall.

To address these limitations, the research cross-references survey outcomes with actual SIP performance data and applies various risk assessment models to ensure robust conclusions. Future studies could increase sample size and include real-time monitoring of SIP investors for more immediate insights.

Comparative Performance

When comparing SIPs with alternative investment options, several noteworthy patterns emerged. SIPs versus fixed deposits analysis showed that while FDs provided capital protection and predictable returns, equity SIPs generated significantly higher post-tax returns over the long term, despite their higher risk profile.

The compounding effect was particularly pronounced for SIPs held beyond 7 years. In the SIPs versus gold comparison, gold SIPs demonstrated their traditional role as a stability provider during economic uncertainties, but their returns (6-8% CAGR) lagged behind equity SIPs. Interestingly, hybrid SIPs (combining equity and debt) emerged as a balanced middle ground, offering better returns than gold with lower volatility than pure equity SIPs.

Investor Challenges

1. Insufficient Understanding of Fund Selection

A significant obstacle encountered by SIP investors is the prevalent lack of knowledge regarding the selection of mutual funds. Numerous novice investors find it difficult to distinguish between various fund types, such as equity, debt, and hybrid, or to assess crucial metrics like expense ratios, portfolio composition, and historical performance. This deficiency in knowledge frequently results in poor decisions, including the choice of funds based solely on previous returns, neglecting to take into account risk factors or individual investment goals.

2. Concerns Regarding Market Volatility

Market volatility is one of the most significant psychological barriers to the adoption of SIPs, especially for risk-averse investors. Numerous potential investors are discouraged by periodic decreases in their portfolio values, failing to recognize that volatility is a natural occurrence within equity investments. SIPs are specifically structured to take advantage of these fluctuations through the mechanism of rupee cost averaging.

Future Scope

- **AI-Driven SIP Optimization:** Subsequent research should investigate the role of artificial intelligence in refining SIP strategies. Machine learning tools could evaluate market behaviors, economic indicators, and individual risk preferences in order to adjust SIP contributions, frequencies, or fund allocations dynamically. Such adaptive systems might enhance returns while more effectively managing risks compared to traditional SIP methods.
- **Global Economic Correlations:** As financial markets grow more interconnected, research into how global macroeconomic trends influence SIP performance would yield significant insights. Studies could examine the effects of factors such as international interest rate changes, fluctuations in commodity prices, or geopolitical situations on SIP returns throughout various market environments and fund categories.
- **Behavioral Finance Integration:** Future research could focus on behavioral elements by designing SIP products that inherently mitigate common cognitive biases. This might encompass features that discourage hasty withdrawals during market declines or stimulate additional investments in response to market downturns.
- **Demographic-Targeted Solutions:** It is essential for research to investigate customized Systematic Investment Plan (SIP) offerings that cater to diverse demographic categories. This exploration should take into account the differences in risk tolerance, financial objectives, and investment timelines that vary according to age brackets, income ranges, and geographic locations.

CONCLUSION

Systematic Investment Plans (SIPs) have emerged as a revolutionary savings mechanism that integrates financial discipline, access, and the potential for wealth accumulation in a distinctive manner. By promoting consistent investment practices regardless of market fluctuations, SIPs adeptly mitigate typical behavioral biases such as timing the market and emotional decision-making. Their built-in rupee-cost averaging feature serves as a safeguard against price volatility, while the advantages of compounding yield superior long-term gains in comparison to conventional savings vehicles. SIPs have notably enabled widespread engagement in financial markets within developing nations by allowing small-scale investors to accumulate significant funds through manageable, recurring contributions.

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