HDFC MF

Weekend Bytes

A weekly series from HDFC Mutual Fund

From Idle to *Active*

Time to switch to SIPs

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HDFC MUTUAL FUND
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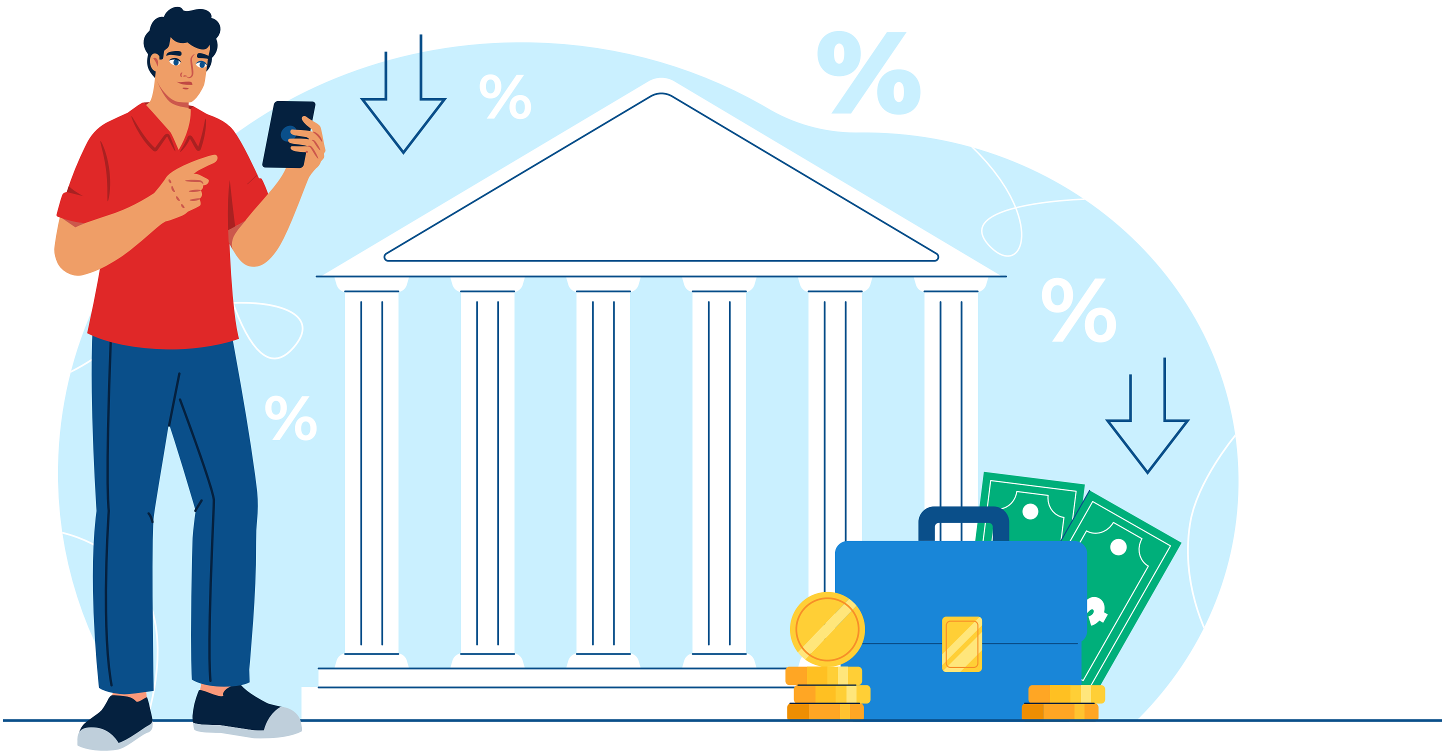
The RBI announced 3 Repo Rate cuts this year – 0.25% in February, another 0.25% in April and 0.50% in June, Source: RBI Monetary Policy. The impact of the rate cut is a reduction of EMI* for loan owners with a floating interest rate.

*or an option to reduce loan tenure keeping the EMI same.



Is there an opportunity to invest the savings on EMI regularly for the long term?

The monthly savings on a loan can be used to start an SIP in an Equity or a Hybrid Mutual Fund Scheme for achieving long term goals.

Consider the below illustration to demonstrate the impact of a cut in the repo rate. An individual has taken a loan of tenure 25 years. Equated Monthly Instalments (EMI) payments are made at the beginning of each month.

Assumed interest rate before rate cut: 8%

Assumed interest rate after rate cut: 7.50% (rate cut by 0.50%)

Due to a reduction in the interest rate, the EMI is reduced. Consider the individual moved his savings (EMI before rate-cut minus EMI after rate-cut) as SIP investment into an equity fund*. SIP investment period of 22 Years, made at the beginning of each month.

Above interest rates are assumed for illustration purposes. Interest rates may vary across the tenure of the loan. Increase in EMI owing to increase in interest rates could also be managed through potential rise in the income levels, while maintaining the SIP investments.

Assuming entire EMI savings are put into the SIP. Monthly SIP of ₹ 3032~ is made at the start of each month.

Monthly SIP in an equity fund*	**₹ 3,032**
Total amount invested in SIP in 22 years	**₹ 8 lakhs~**
Rate of return* for Nifty 500	**12.80%**
Value at the end of 22 years	**₹ 40 lakhs~***

The SIP investment would grow to a value of ₹40 lakhs~* for a cumulative investment amount of ₹8 lakhs~.

* Note: Returns calculated by taking mean of 10-year rolling returns between 01/06/14 and 31/05/24 (Index values are considered from June 2004 to May 2024) of Nifty 500: 12.80%.

Disclaimer: **Past performance may or may not be sustained in the future and is not a guarantee of any future returns. HDFC AMC/Mutual Fund is not guaranteeing or promising or forecasting any returns.** Historical performance indications and financial market scenarios are not reliable indicators of current or future performance.

~For reading convenience, the figures have been rounded off to the nearest whole number.

Why opt for an SIP way of investing?

Rupee Cost Averaging: One buys less number of units when markets are up and more number of units when markets are down. This helps reduce the average cost of purchase of units over time.

Compounding: The power of compounding can be appreciated with SIPs owing to regular contributions being made over a sufficient period of time.

Instils discipline: Investing via an SIP inculcates a habit of investing in people whereby they take conscious efforts to keep a tab on their expenses and make sure they invest.

Accessibility: SIPs allow one to start investing with small amounts, making it accessible to people with varying investable surpluses.

Market timing becomes irrelevant: No one can accurately time the markets each and every time. SIPs remove this uncertainty by spreading investments across a broader time horizon. This reduces the risk of a market timing prediction going wrong.

Conclusion

Depositors can consider moving a portion of their idle funds lying in savings bank accounts to mutual fund schemes via the SIP route. In this manner, they may be able to manage the erosion of purchasing power caused by inflation on funds lying in their savings bank accounts. This may assist individuals in achieving their long-term financial goals.