# Why equity and SIP?

**Focusing on equities and continuing with SIP can help you create wealth**

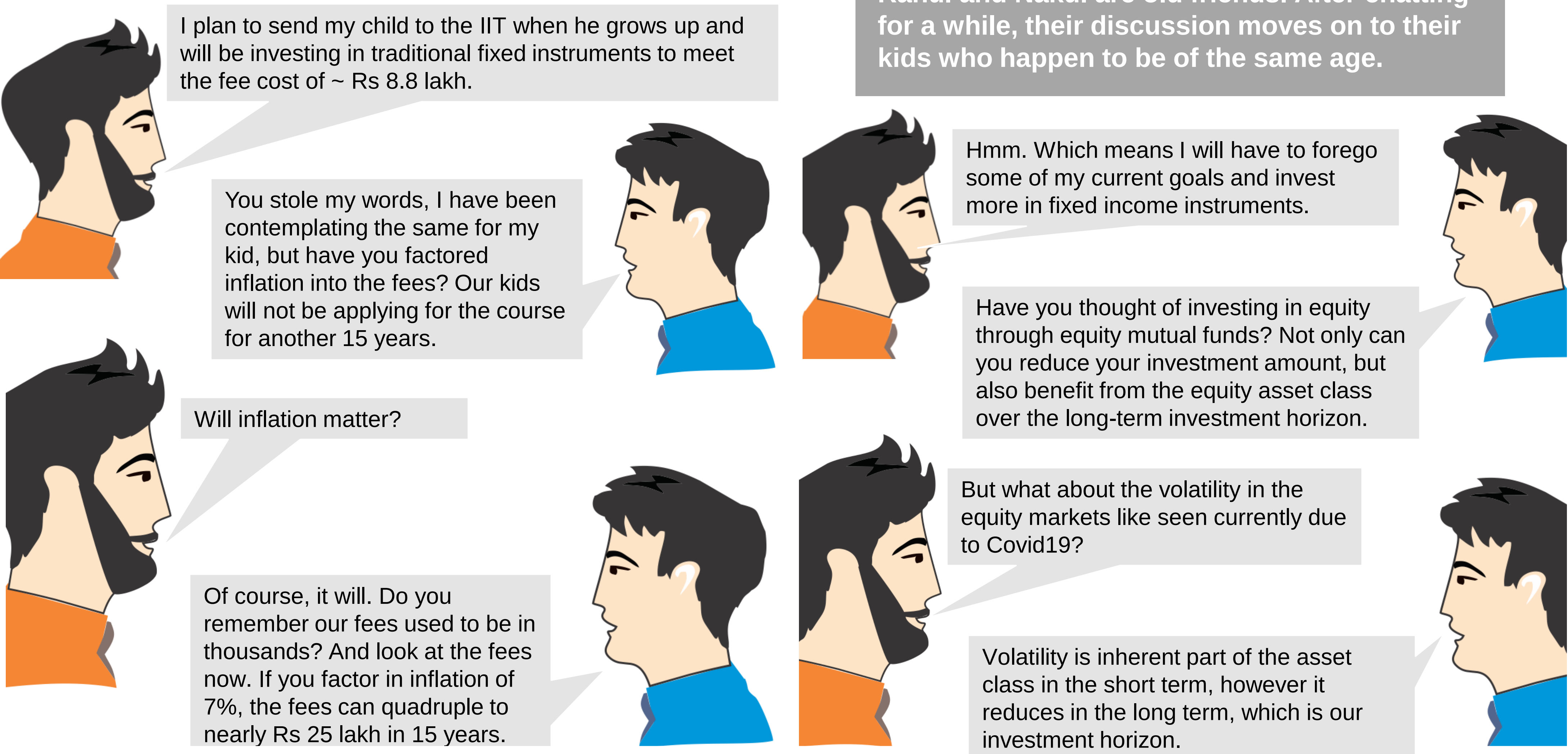
HSBC
Global Asset Management

May 2020

# Why make equities a part of your investment portfolio?

Let’s listen to Rahul and Nakul’s conversation

**Rahul and Nakul are old friends. After chatting for a while, their discussion moves on to their kids who happen to be of the same age.**




**Systematic investments in equity provides optimum results for investors over the long term**

# More benefits in the long term

As can be seen below, we can achieve our goal even with a lower investment by investing systematically in equity mutual funds. The surplus that remains can be used to target other life goals

| | |
|---|---|
| **Goal** | • Higher education for kid |
| **Current cost of goal** | • Rs.8.8 lakh* |
| **Goal period** | • 15 years |
| **Future cost** | • Rs.24.28 lakh^ |

| Illustrative SIP example | Equity investments | Fixed income investments |
|---|---|---|
| Monthly investment amount needed to achieve goal | ~Rs.3,500@ | ~Rs.7,600# |

**Systematic investments in equity provides optimum results for investors over the long term**

Notes: *IIT Bombay
Assuming inflation of 7% which is the average inflation rate of industrial workers since April1988 till March 2020
@Grown at 15% Equity - represented by S&P BSE Sensex's average CAGR for 15-year holding period calculated on a daily rolling basis since 1979; data till March 2020
#Grown at 7.59% represented by 1-year FD index returns between April 2000 and March 2020
The projection contained in this graph is for illustration purposes only.
Past performance may or may not sustain, past performance does not guarantee the future performance.

# Five reasons why everyone should consider investing in equities

## Growth

Equity market performance highlights the potential of equities to deliver growth

## Inflation

Investing in equities can provide an opportunity to outperform the ever increasing inflation and improve purchasing capacity

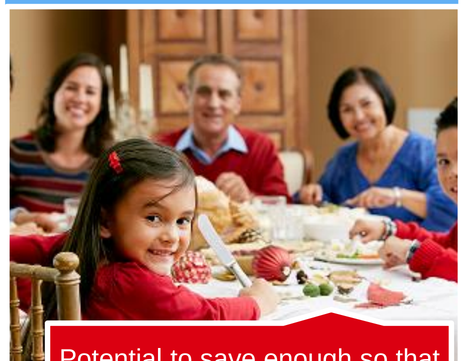
## Returns

Historically, equities have relatively outperformed other asset classes over a long term

## Goals

Investing in equities can help to meet your goals which seems difficult now

## Retirement

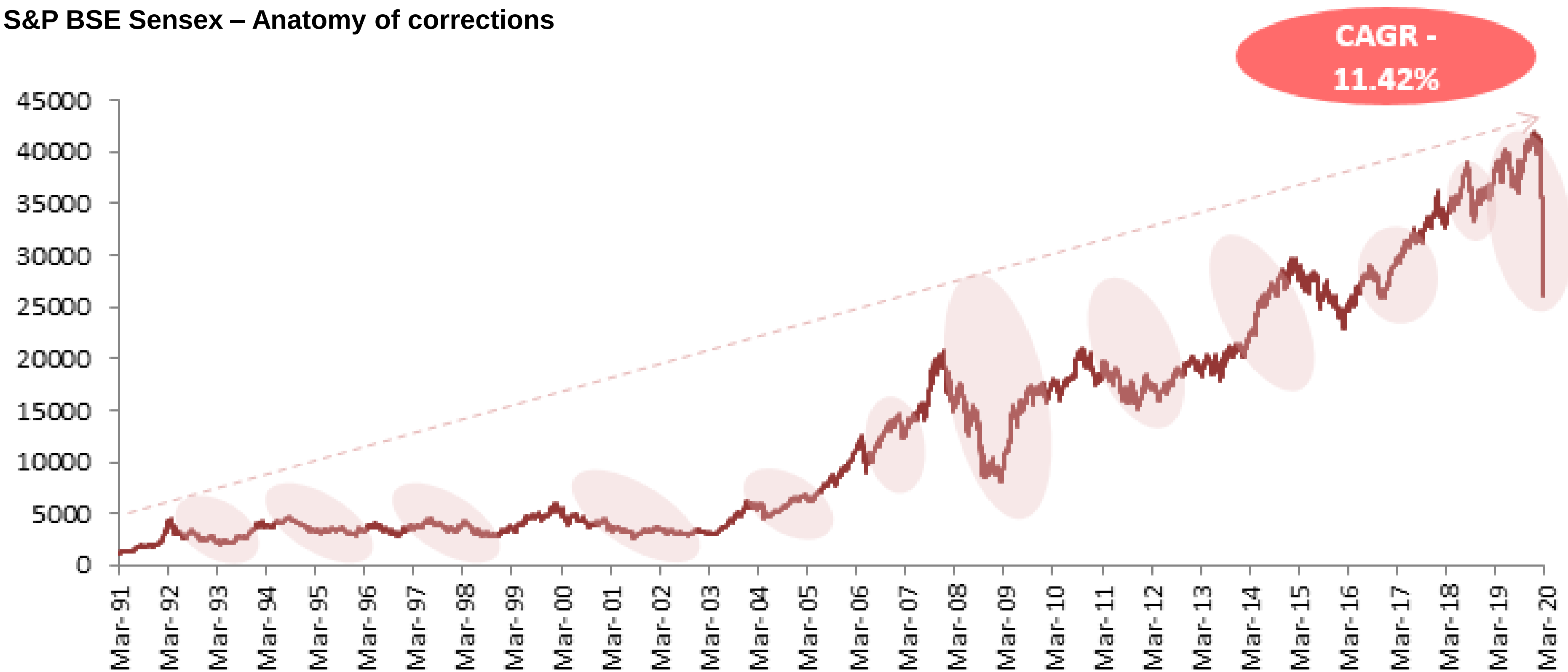


Potential to save enough so that you may manage to retire early and enjoy life

**Equity investment offers many benefits such as achieving potential inflation beating growth and plan for long term goals**

# Equity has grown 25 times in less than ~30 years

**S&P BSE Sensex – Anatomy of corrections**




**Note: Highlighted circles represents correction in the market**

**Equity market has grown at 11.4% CAGR despite short term corrections over ~30 years**

Source: BSE, Equity - S&P BSE Sensex, FY April 1991 – Mar 2020
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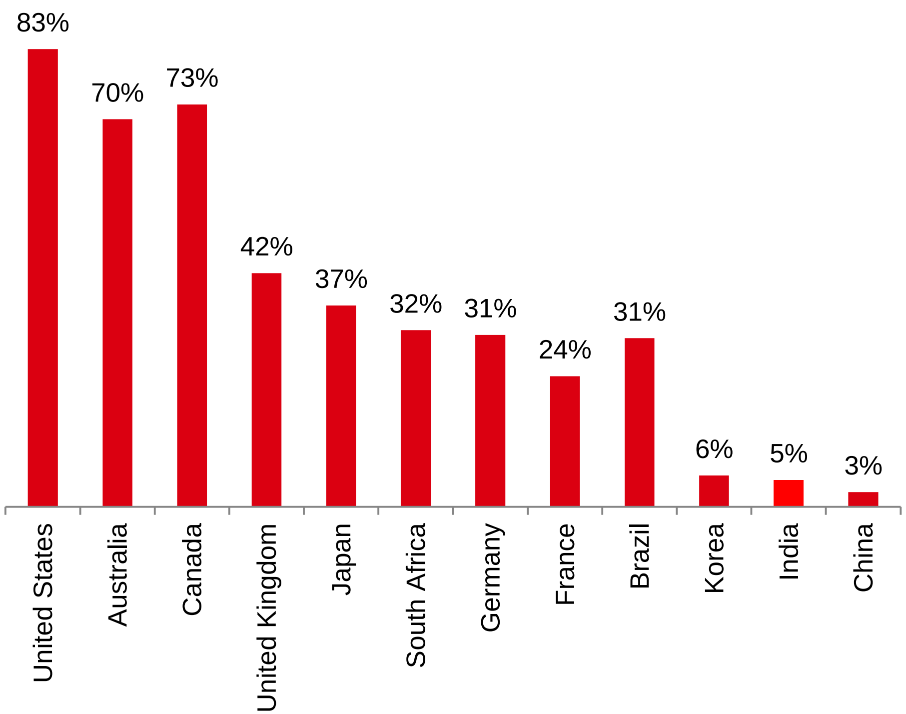
# Globally, equity is the most preferred investment avenue

Scope to increase equity allocation in India

**Emerging economies are significantly under-exposed to the equity asset class compared with developed economies**




**Equity exposure well suited for India's young demography. India is likely to remain a young country in the future**

**Share of 15- 49 year olds in the country's population**

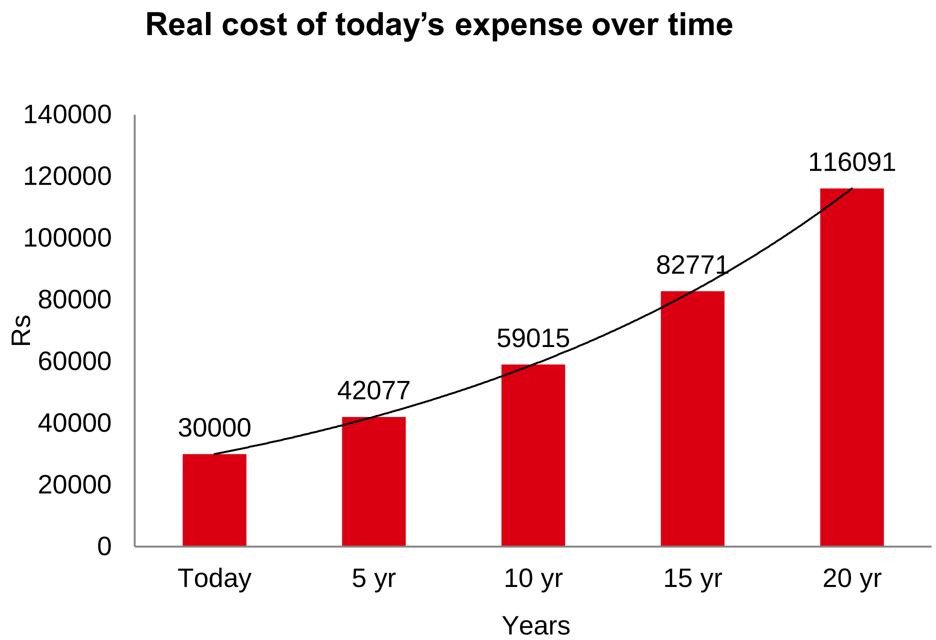
| Country / region | 2020 | 2035 | 2050 |
|---|---|---|---|
| Australia | 47% | 44% | 43% |
| Brazil | 54% | 48% | 41% |
| China | 49% | 44% | 38% |
| India | 54% | 52% | 47% |
| Japan | 40% | 35% | 33% |
| Russian Federation | 46% | 44% | 43% |
| South Africa | 54% | 52% | 49% |
| United Kingdom | 44% | 43% | 41% |
| United States of America | 46% | 45% | 42% |

**India has one of the lowest equity exposures of only 5%**
**Young investors can invest more in equity to benefit from long-term compounding**

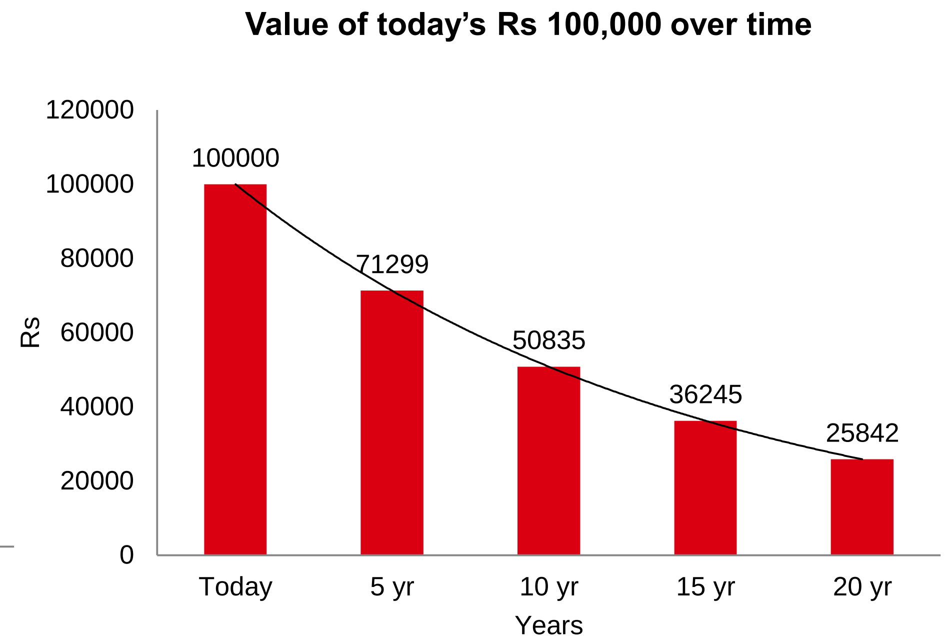
Source: CRISIL, IMF, IIFA, UNCTAD,
Data as of December 2019
India's AUM of equity and balanced/ mixed funds (assuming 70% allocated to equity) is used as proxy for retail investors' investments in equity

# Inflation eats value of money

If our expenses are real, returns should also be real




**At inflation of 7%**



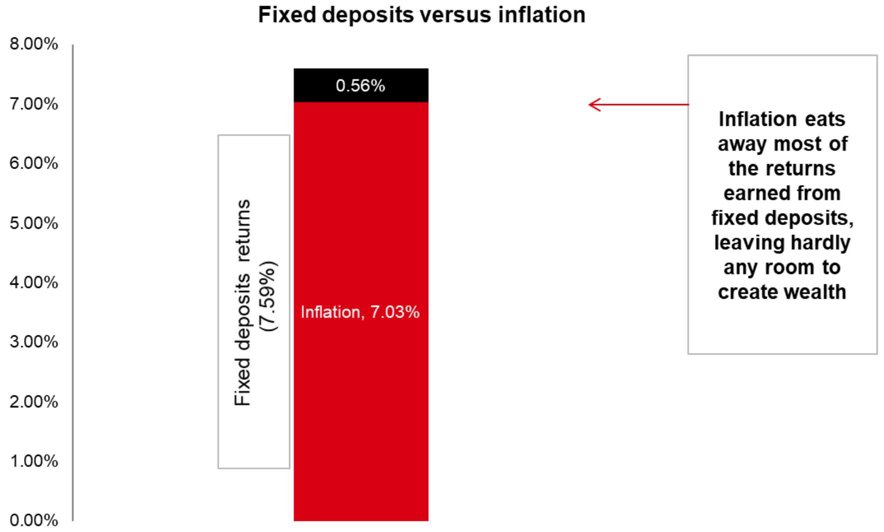

**At inflation of 7%**

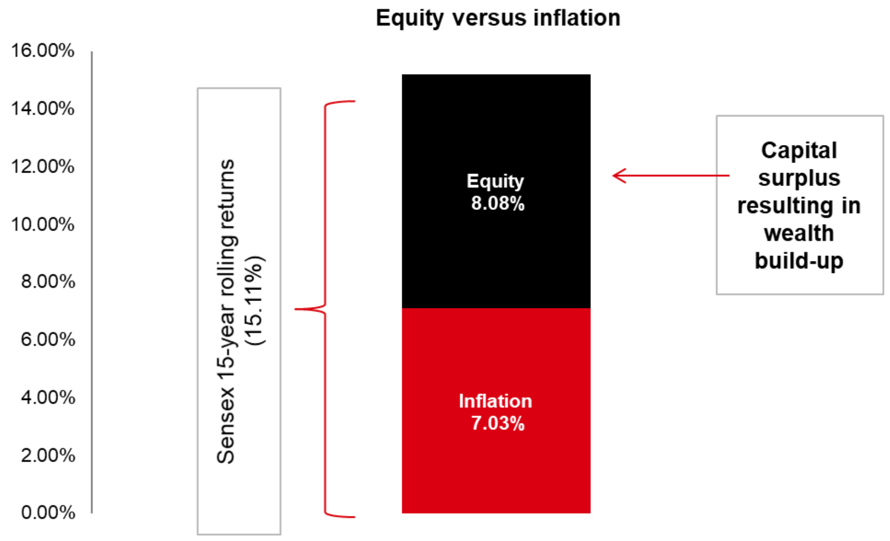
**Saving is not enough**
**Inflation not only increases cost of products, it also reduces value of money!**

Source: Labour bureau.nic.in
Notes:
Inflation represented average of monthly inflation of industrial workers declared since April 2000 till March 2020

# Traditional savings may not offer enough cushion

Equity provides a cushion against "cost of living" (inflation) which typically consumes investment capital




- Difference between saving and investing is the ability to provide an affordability cushion by beating inflation on a regular basis

**Regular investment in equity helps tackle the rise in cost of living and helps plan for future goals**

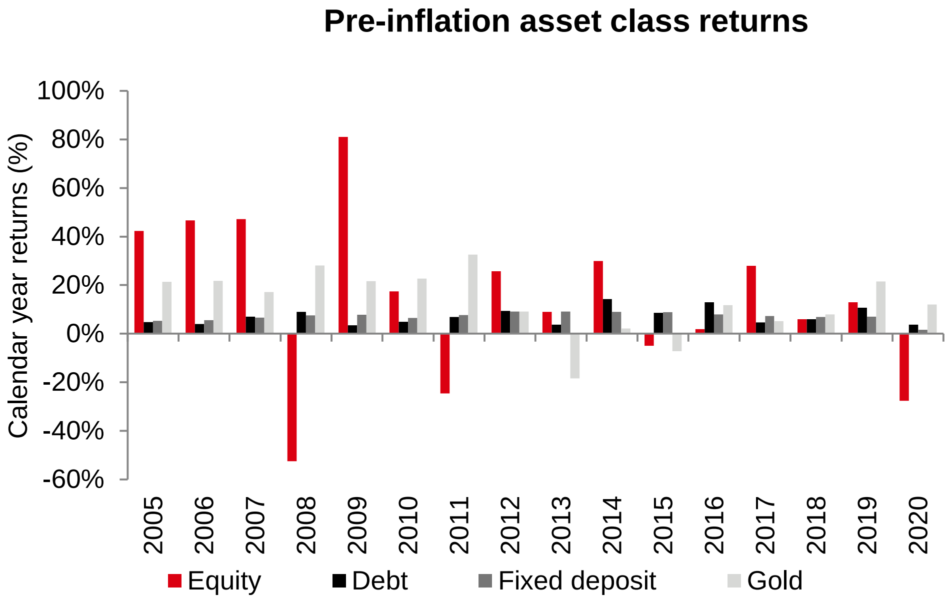
Source: CRISIL Research, BSE, Labour bureau

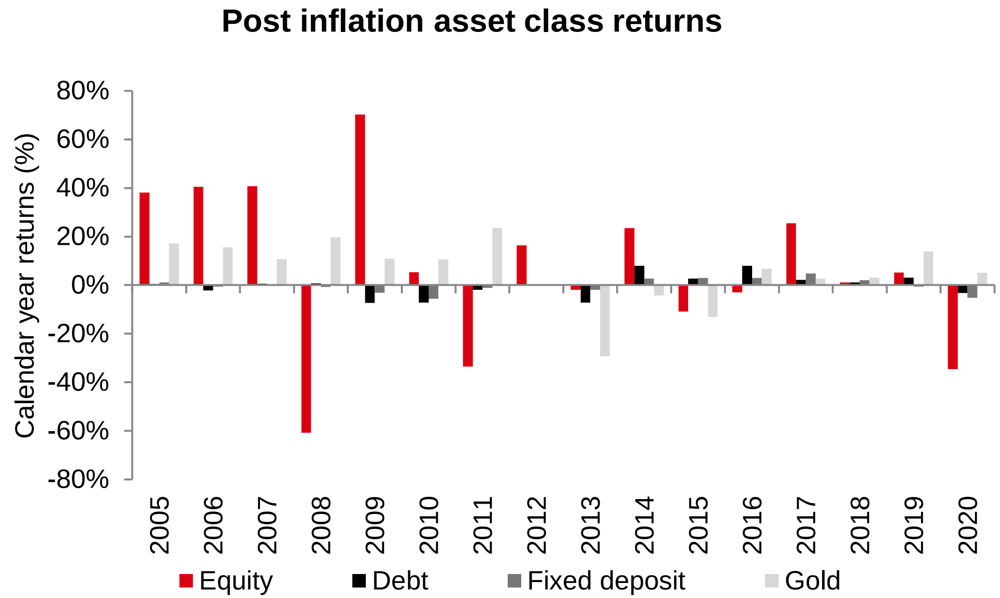
Fixed deposit rate represented by 1-year FD index's annualised returns since April 2000 till March 2020

Equity returns represented by S&P BSE Sensex's average CAGR for 15-year holding period calculated on a daily rolling basis since 1979; data till March 2020
Inflation represented average of monthly inflation of industrial workers declared since April 1988 till March 2020

# Calendar year returns shows encouraging performance of equities

Pre- and post-inflation returns



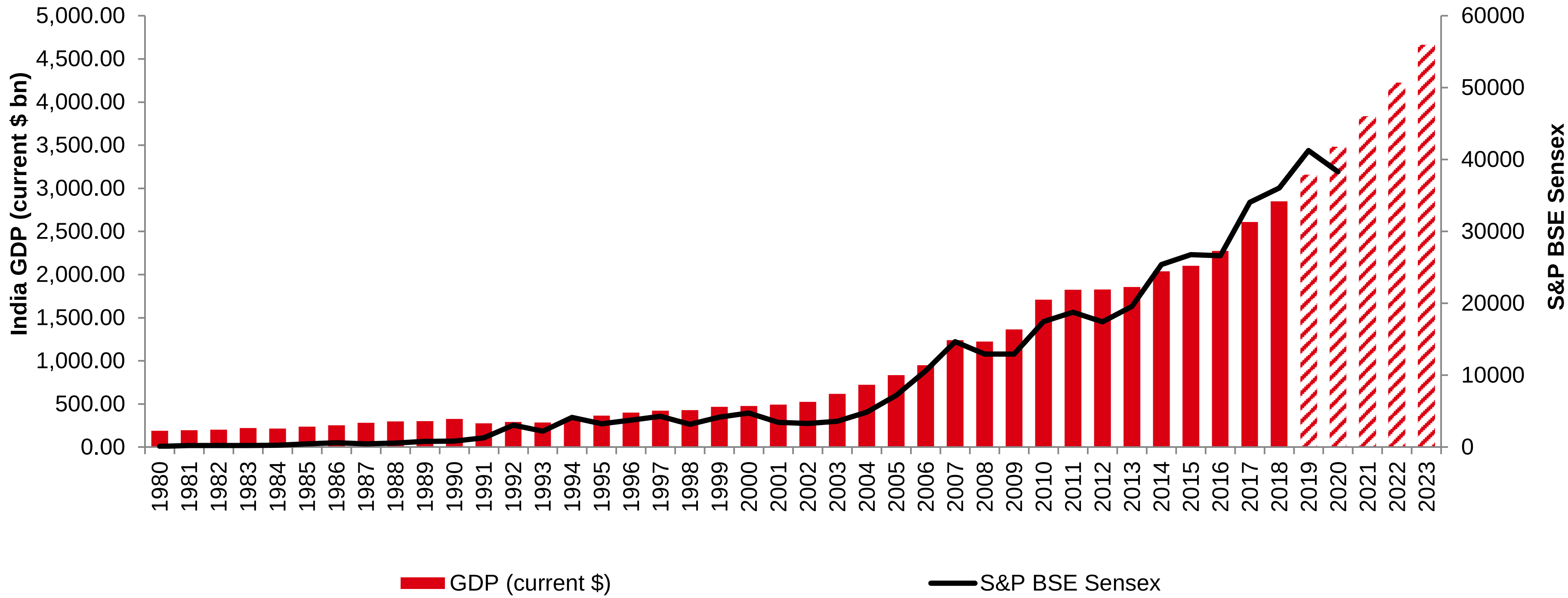

**Equity has outperformed other asset classes in most calendar years**

Source: BSE, LBMA, CRISIL, Labour bureau
Notes:
CY Data till December 2019, YTD data as at March 2020 for CY2020
Year-on-year returns for all asset classes
Equity represented by S&P BSE Sensex, debt by CRISIL Composite Bond Index, fixed deposit rate represented by 1-year FD index, gold by global prices converted into rupee and inflation by annual CPI
Past performance may or may not sustain, past performance does not guarantee the future performance.

# Equity mirrors economic growth in the long term

India is expected to regain its long-term growth trajectory post initial impact year of COVID-19

**GDP and S&P BSE Sensex**




**Equity offers an opportunity for a long-term wealth creation**

Source: BSE, IMF

Notes: Data as at October 2019 by IMF, S&P BSE Sensex – as at March 2020

GDP projection given here are before the addition of COVID-19 impact, Projections starts after year 2019 and are shown shaded in this graph for illustration purposes only

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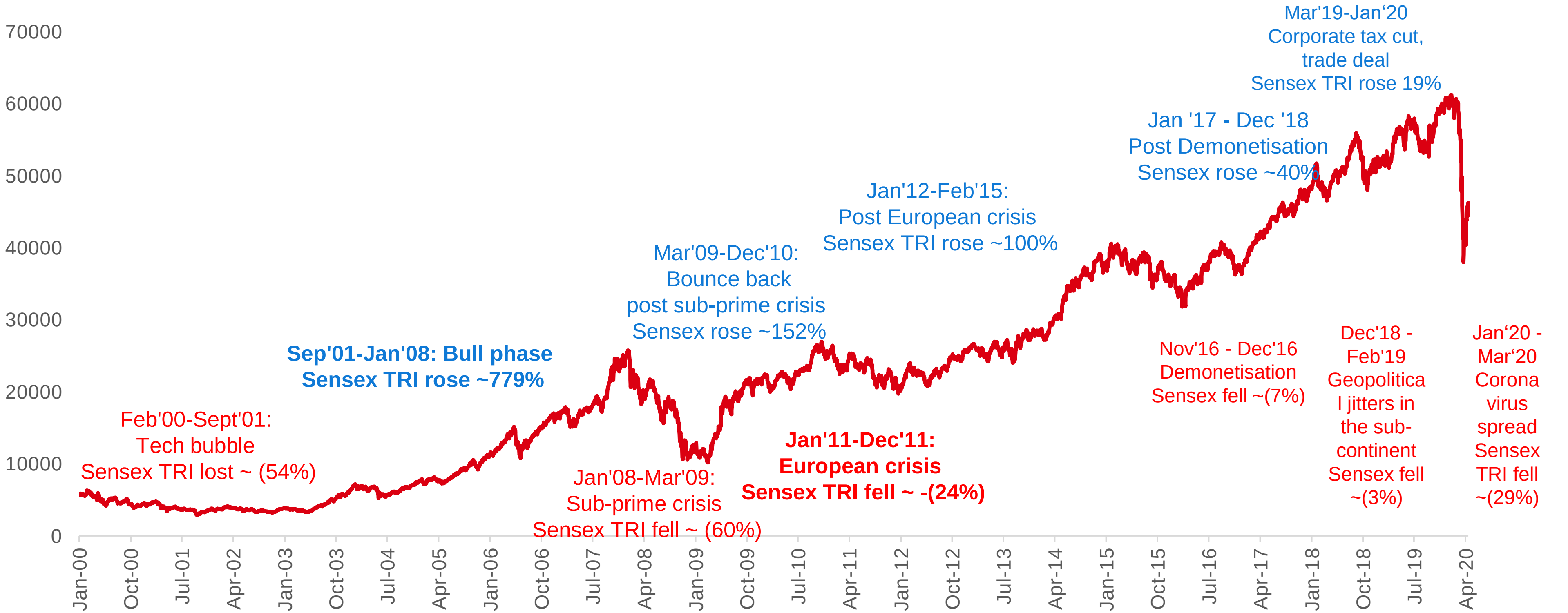
# Notably, the ride has not been smooth

Sharp market falls are followed by significant recovery and outperformance over a long term

**S&P BSE SENSEX – TRI performance across big events**




Source: BSE, CRISIL Research
Data as of April 2020, Returns for the period absolute
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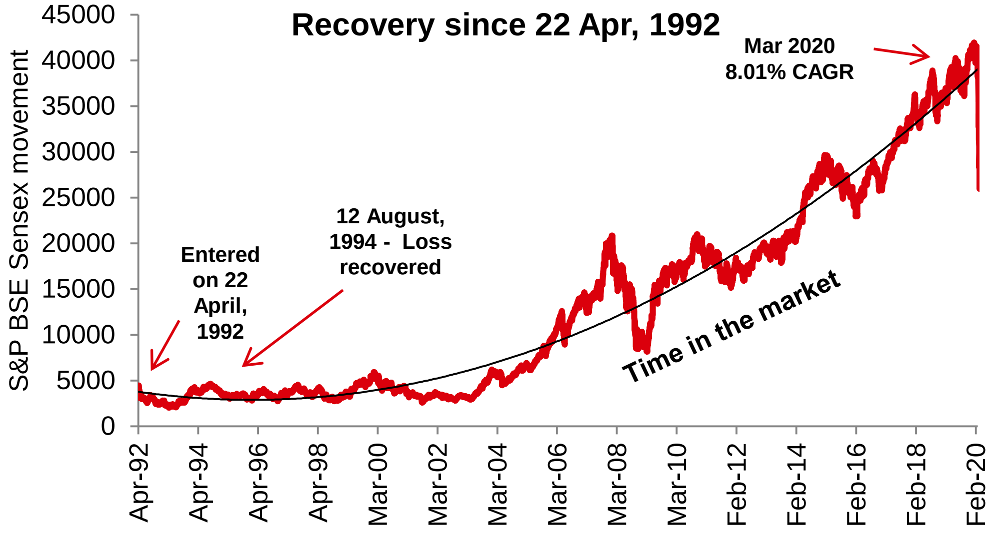
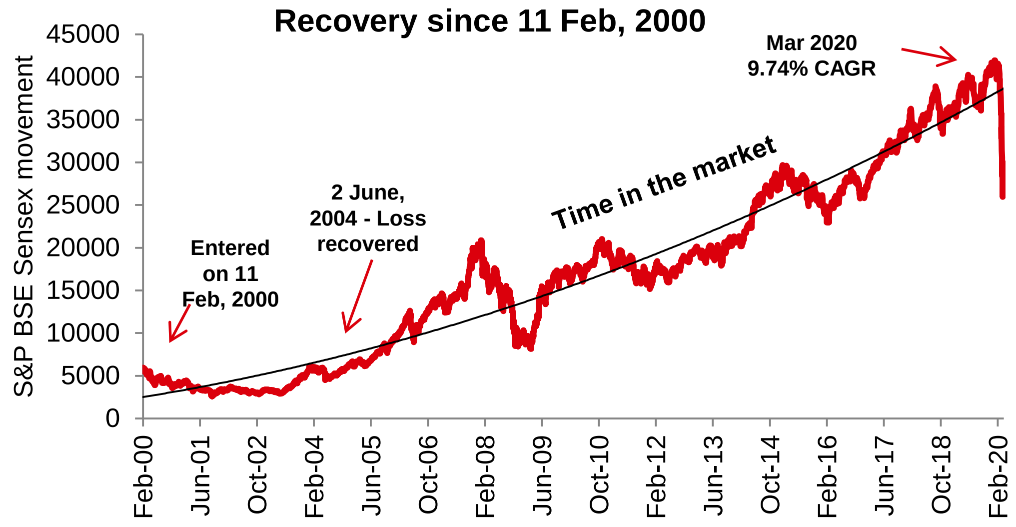
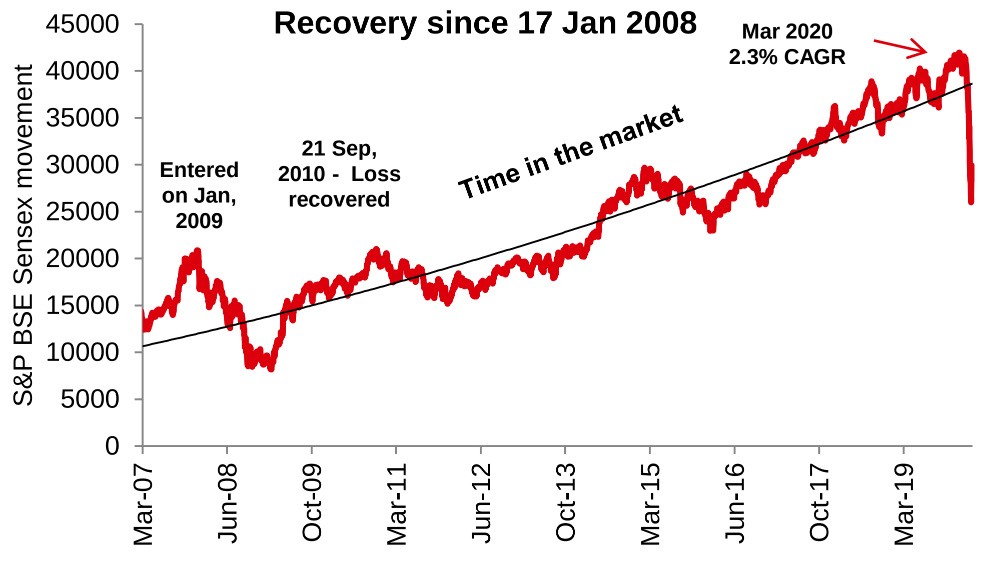
# If you invest for a far-off goal, you can ride out the downturn

History shows that market falls are followed by recovery in the medium term




**Losses in equity are transitory – spend time in the market to earn better returns**

Source: BSE, CRISIL Research
Data as at March 2020
Past performance may or may not sustain, past performance does not guarantee future performance.

# Short-term volatility is an intrinsic part of equity investment

## Long-term investment pays off

| S&P BSE Sensex | 3-year rolling returns | 5-year rolling returns | 7-year rolling returns | 10-year rolling returns | 15-year rolling returns |
|---|---|---|---|---|---|
| **Average rolling period returns** | **16.56%** | **16.15%** | **15.82%** | **15.76%** | **15.12%** |
| Total time periods (monthly rolling) | 454 | 430 | 406 | 370 | 310 |
| Total number of positive returns* | 403 | 397 | 381 | 367 | 310 |
| Total number of negative returns^ | 51 | 33 | 25 | 3 | 0 |
| **Positive investment periods** | **89%** | **92%** | **94%** | **99%** | **100%** |

**The longer you stay invested, lower the possibility of negative returns**

**In the long term, the probability of incurring loss is lower in equity investment**

Notes:

Monthly rolling returns for respective holding periods since 1979. For instance, in case of 15-year monthly rolling returns, there will be 310 return periods. The first return period will be June 1979 to June 1994 and last return period will be March 2005 to March 2020.

* Positive returns – The number of investment periods during which returns have been positive. For example, where investment returns have been computed for a 15-year rolling period, 310 months offered positive returns (profits), the number of positive returns period = 310

^ Negative returns – Number of investment periods during which returns have been negative. For example, where investment returns have been computed for a 5-year rolling period, 33 months offered negative returns (losses), the number of negative returns = 33.

Source: BSE, CRISIL Research,

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Data as on March, 2020

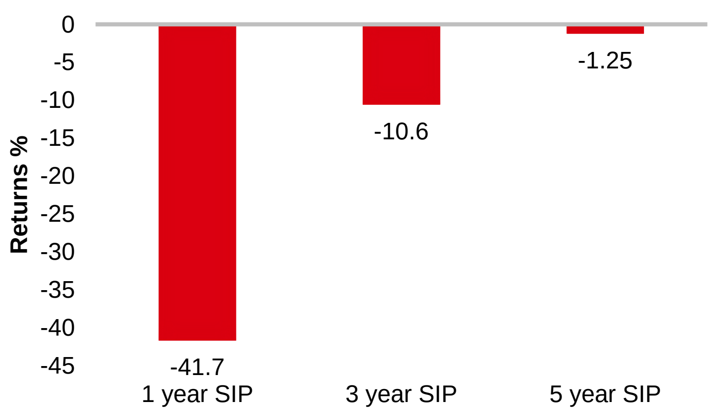
# SIP Sahi Hai,
# Always

# Don’t panic about SIP’s negative returns, stay invested and give time

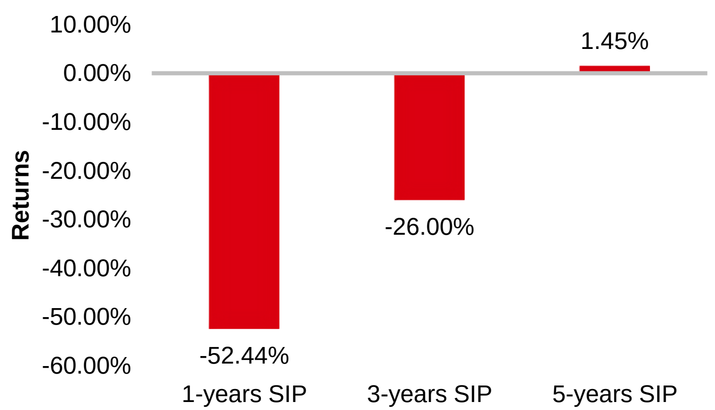
Long-term investment pays off

- Recent market downfall amid covid-19 crisis has shaken confidence of even those investors who had adopted a disciplined approach of the systematic investing.
- Analysis of SIP returns in S&P BSE Sensex show negative or paltry returns for all short to medium investment horizon viz., one year, three year and five year periods ended March, 2020 in the range of -41.7% to -1.2% in the increasing order of investment horizon.
- While this may be disappointing and tempting investors to redeem or stop their SIPs to prevent further erosion of the wealth.
- Hold on…..This isn’t the first time that investments through this medium has shown negative returns in the short to medium term investment horizon. Negative or marginal SIP returns were also evident during the global financial crisis (2008-09).

**Current Scenario**




***Flashback 2009***




**Market falls are followed by recovery and better performance over a long term**

Source: BSE, CRISIL Research



1st chart - Data as of March 2020, 2nd chart – Flashback 2009 – data as at March 2009, Monthly SIP of Rs.10,000 in S&P BSE Sensex on the first day of the month

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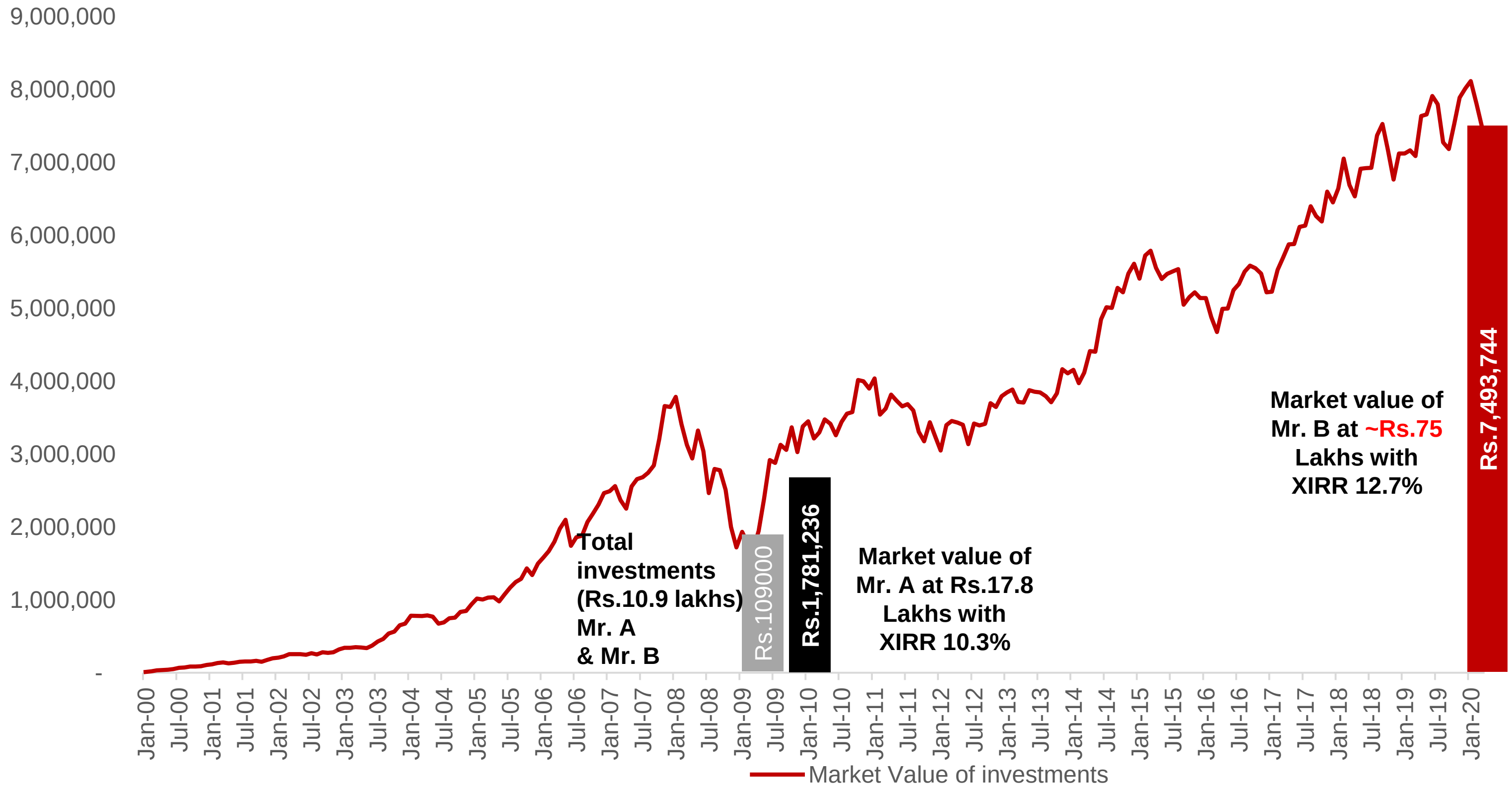
# **Investor who redeem/stops SIP** lose out on long term opportunity

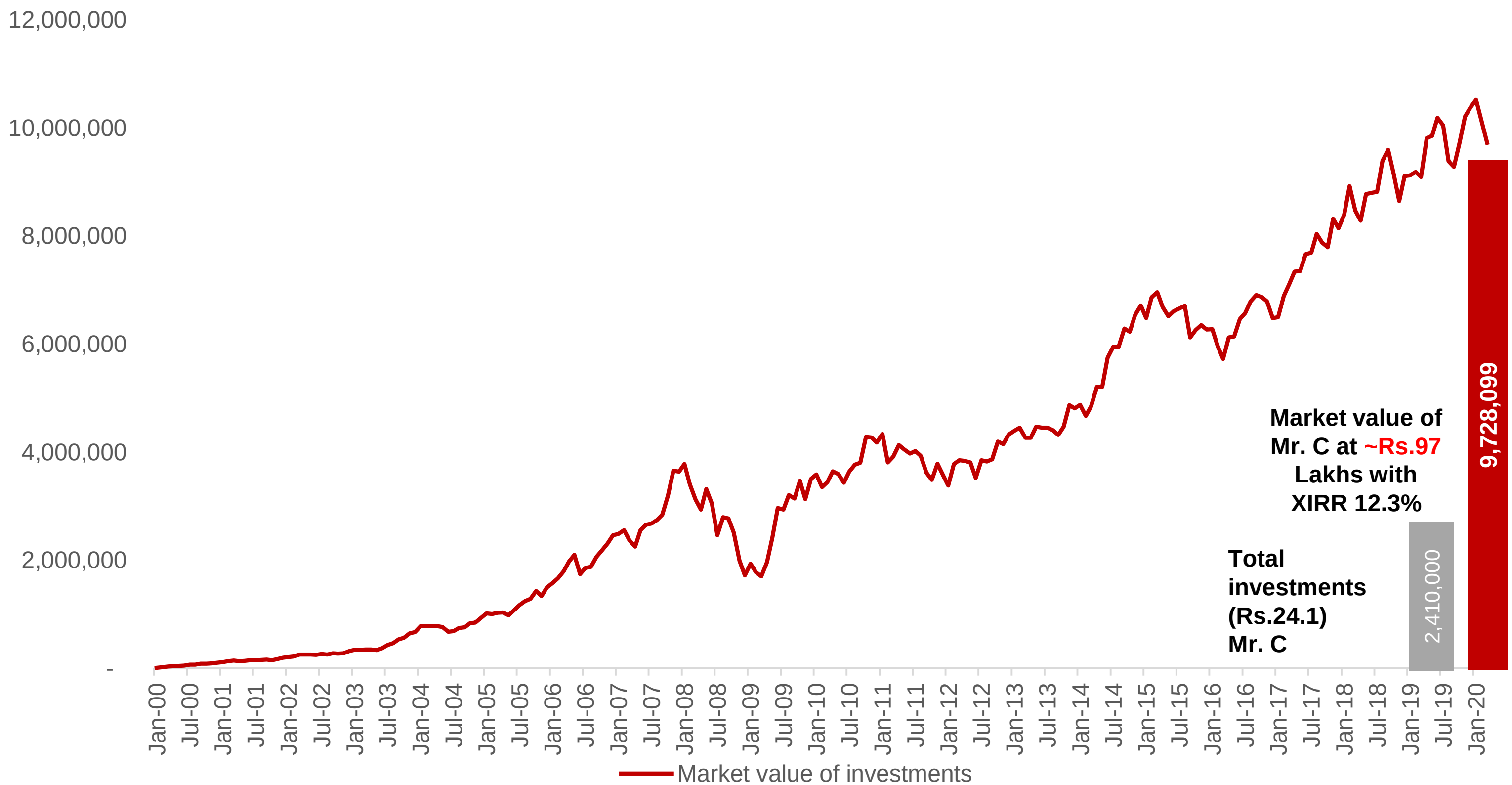
- Mr. A and Mr. B, both started their investment journey in SIP in January 2000, with a monthly investment of Rs.10,000.
- Everything was fine with their investments, till 2008 when the financial crisis happened, and both lost their nerves.
- While Mr. A redeemed his investment, Mr. B stopped his investments, but did not withdraw his money.
- Mr. A received ~Rs.17.80 lakh from his cumulative investment at an XIRR of 10.3%, while Mr. B who had retained his money in the mutual funds stands at a corpus of ~Rs.75 lakhs as at 'February 2020 *(till the latest Bull market end)'*^ with the same amount of investment and XIRR of ~12.7% over the period.




Source: BSE, CRISIL Research
Notes: ^ The performance is calculated till the end of February 2020 till the latest bull market end to show the performance analysis from the Bear/Normal market to the Bull market.
Data as at February 2020
Monthly SIP of Rs.10,000 in S&P BSE Sensex from January 2000 on the first day of the month,
Past performance may or may not sustain, past performance does not guarantee the future performance.

## **Investors who persists and continues with SIP** investments even after market corrections gain from a long term opportunity

- Mr. C too had initiated his investments in January 2000 with similar monthly amount of Rs.10 thousand, he however persisted with his investment over the years and his total money invested of Rs.24.1 lakh which stands at a market value of Rs.97 lakhs as at 'February 2020 *(till the latest Bull market end)'*^ with XIRR of over 12.3%.




Source: BSE, CRISIL Research
Notes: ^ The performance is calculated till 28 February 2020 till the latest bull market end to show the performance analysis from the Bear/Normal markets to Bull market.
Data as at February 2020
Monthly SIP of Rs.10,000 in S&P BSE Sensex from January 2000 on the first day of the month
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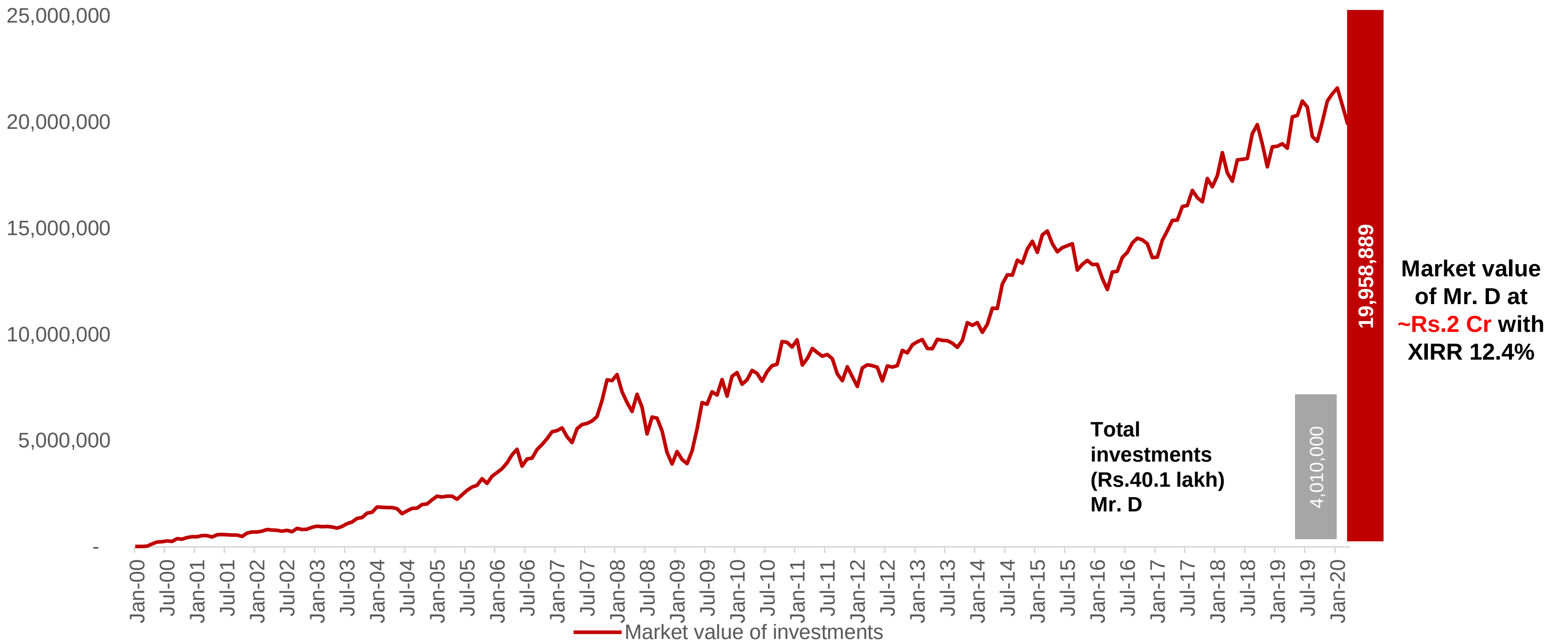
# **Investors who use market falls as opportunity** derive higher benefits

## **Lump sum** investment additions on market falls

- Another investor Mr. D add lump sum investment during market downturns to derive higher benefits.
- In this scenario, he investor invested Rs.1 lakh in the month after the fall of 10% in addition to the regular SIP amount of Rs.10 thousand (making total of Rs.1.1 lakh).
- The resultant impact on their investment of Rs.40.1 lakhs grew to ~ Rs.2 Cr at ‘February 2020 *(till the latest Bull market end)’*^ at XIRR of 12.4%.




Source: BSE, CRISIL Research

Notes: ^ The performance is calculated till 28 February 2020 till the latest bull market end to show the performance analysis from the Bear/Normal markets to Bull market.

Data as at February 2020



Monthly SIP of Rs.10,000 in S&P BSE Sensex from January 2000 on the first day of the month

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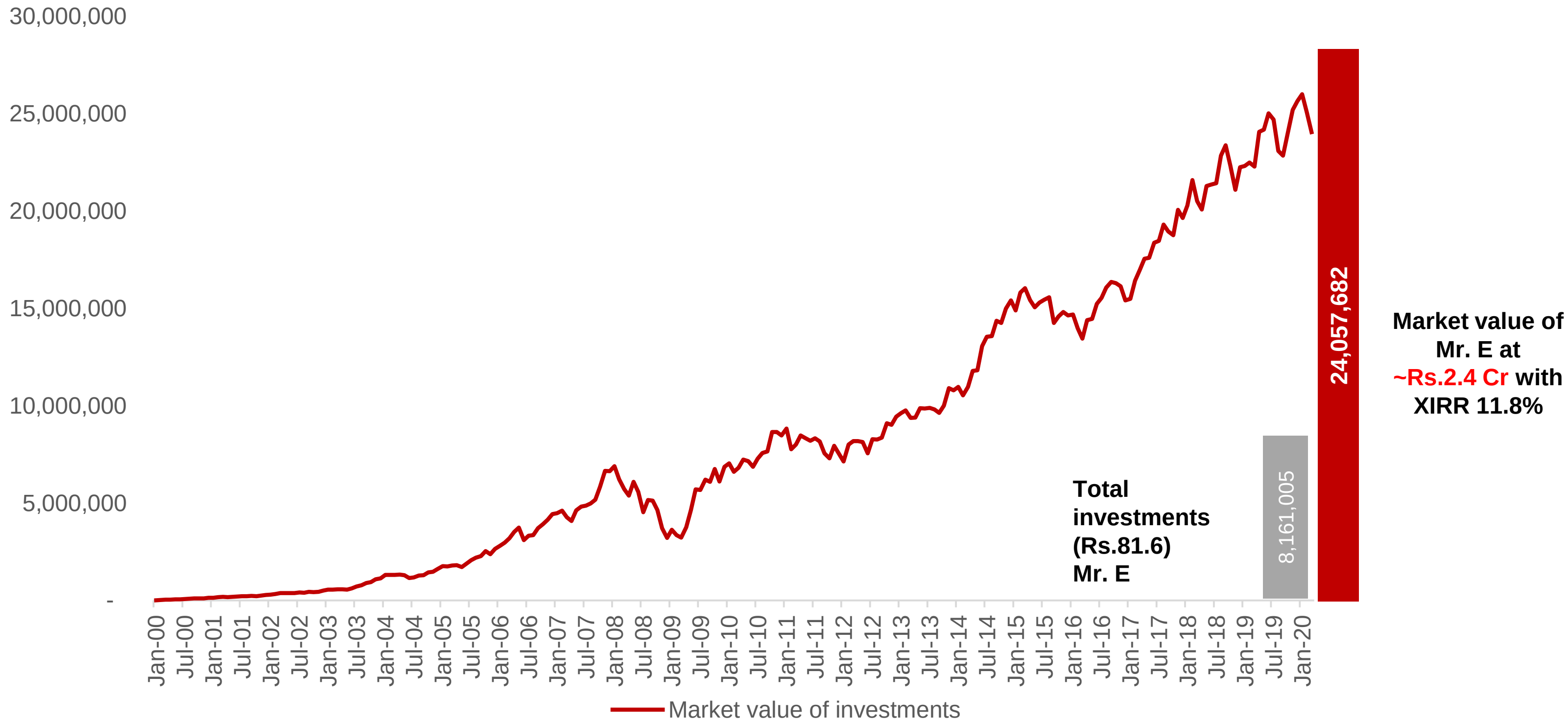
## **Investors who use market falls as an opportunity** to derive higher benefits

## **Incremental SIP** on market falls

- Let us look at case of another investor Mr. E, who had a similar starting point of investment journey like A, B and C.
- He however upped the ante during market downfalls, increasing his monthly investment value by 10% every time the markets fell by 10% in a single month.
- This increased SIP investment is retained till the next similar fall and the process continues.
- The resultant impact on his investment of ~ Rs.81 lakhs is visible as his investment grew more in value terms to ~Rs.2.4 Cr as at 'February 2020 *(till the latest Bull market end)'*^ at XIRR of ~11.8%.




Source: BSE, CRISIL Research
Notes: ^ The performance is calculated till 28 February 2020 till the latest bull market end to show the performance analysis from the Bear/Normal markets to Bull market.
Data as at February 2020
Monthly SIP of Rs.10,000 in S&P BSE Sensex from January 2000 on the first day of the month
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# Look past the gloomy market scenario and continue SIPs for the long term

- Don't fret about the SIP returns in red, stay invested for the long term as gradual recovery in the market will lift the corpus value, providing the push to overall SIP returns.
- To understand the implications of various types of mutual fund investor behavior during market volatility and the benefits, let us look at the overall scenario analysis in the table below.

| | Investor A | Investor B | Investor C | Investor D | Investor E |
|---|---|---|---|---|---|
| | SIP Stop + Redeem In 2008 | SIP Stop (2008) + Investments Hold | SIP Continues | SIP Continues + Lump sum 10% on Market fall^ | SIP Continues + SIP Increase by 10% on every Market fall^ |
| **Total amount invested (Rs. lakh) (since 2000)** | 10.9 | 10.9 | 24.1 | 40.1 | 81.6 |
| **Total value at the end of February 2020^^ (~ Rs. Lakh)** | 17.8 | 74.9 | 97.3 | 199.6 | 240.6 |

**The result**

- Investor A missed out on accumulating more units and garnering more corpus, investor B benefitted from retaining investments but could not leverage the gains in rupee terms.
- Investors C persevered and benefitted from his disciplined investments, however investor D and E, milked the market falls to invest more and derive higher benefit to their end investment corpus.



Refer slides 15 to 18 for charts / calculations

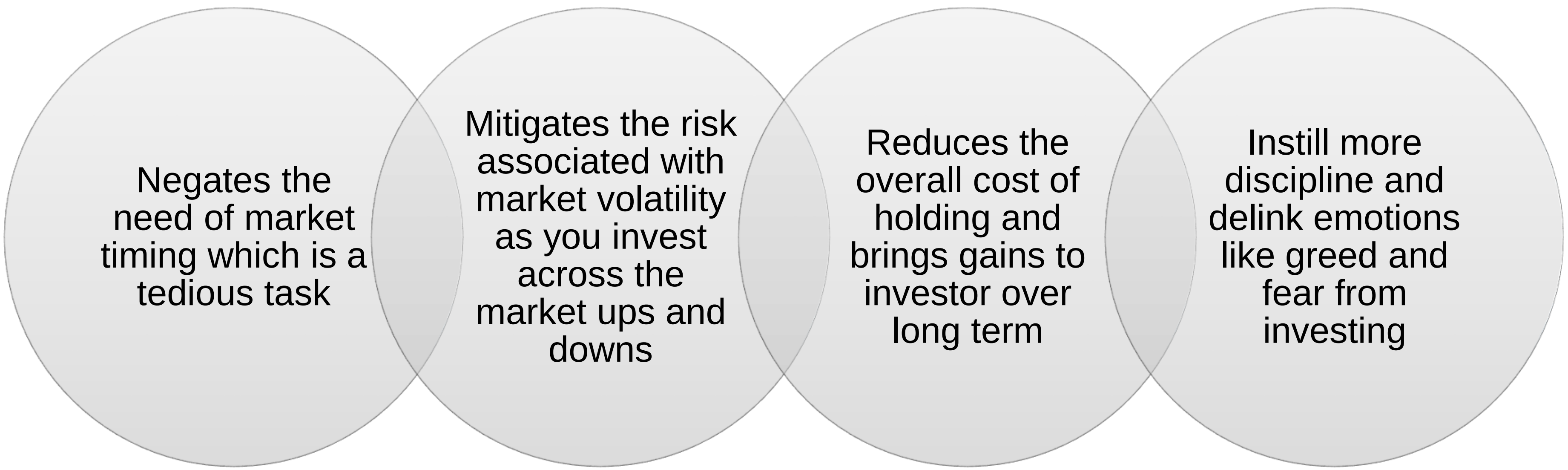
^ on every 10% market fall since year 2000

Notes: ^^ The performance is calculated till 28 February 2020 till the latest bull market end to show the performance analysis from the Bear/Normal markets to Bull market.

# One SIP many benefits

Rupee cost averaging and compounding are among those

- SIP ensures investment of fixed amount regularly at different points of time which ultimately results in investors buying more units when market falls and less units when market rises. This averages the cost per unit of the investment (concept known as rupee cost averaging).
- Rupee cost averaging is beneficial for investors in many ways:



# In a nutshell

Equity is a long-term capital growth solution and with SIP everyone can have it

- The future is uncertain; prediction is risky

- Preserve but it is important to grow capital in real terms over the long term

- Target out-performance only over a full market cycle

- Invest systematically in equity over the long term to derive optimum results for your investments

***“Someone is sitting in the shade today because someone planted a tree a long time ago”***

***Warren Buffett***

# Disclaimer

Source: CRISIL, Data as at April 2020 unless otherwise mentioned

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