A COMPARATIVE STUDY ON ONE TIME INVESTMENT AND SYSTEMATIC INVESTMENT PLANS IN MUTUAL FUNDS- CONCEPTUAL STUDY

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ABSTRACT

The past few year Indian mutual funds receive a high range of popularity unit trust of India (UTI) enjoyed a complete monopoly in the sector as it was the only entity to offer the service now this mutual funds industry has entered the phase of consolidation and growth with recent merger among different private sector fund houses .this paper is focused on the comparative between one time investment that is lump sum investment and systematic investment plan for this the present study analyses the returns of selected mutual funds schemes using Sharpe ratio come with the conclusion which investment plan is best for investing in mutual funds.

Keywords*: Investment, Mutual funds, Lump sum, Systematic plan, Sharpe ratio*

INTRODUCTION

A mutual fund is a kind of investment that uses money from investors to invest in stocks, bonds or type of investment. Mutual funds are usually “open ended” that a new investors can join into the fund at any time. The income earned through these investments is shared by its unit holders in proportion to the number of units owned by them. There are two ways to invest in mutual funds one is through one time investment that is annual lump sum payment and other is systematic investment plan (sip). Lump sum investment is a onetime investment which is due for one year if the investor has a huge disposable amount in hand and has a higher risk tolerance. They may opt for a lump sum investment. Systematic investment plan is a investment in which the investor will invest monthly. So we can make a comparative study of one time investment and systematic investment plan and conclude which has more benefits.

INVESTMENT

An investment is possessions or item accomplished with the goal of generating earnings or recognition. In a Monetary touch, an investment is the purchase of property that are not exhaust today but are used in the future to generate wealth. In business, an investment is a fiscal asset procured with the idea that the asset will provide revenue in the prospective or will later be disposed at a higher price for a turnout.

MUTUAL FUND

A mutual fund is constitute when capital possessed from different capitalist is invested in company shares, stocks or bonds. Common by thousands of investors (including you), a mutual fund is driven concurrently to earn the highest probable returns. The person compelling this investment vehicle is a qualified fund manager.

TYPES

- Based on asset
- Based on structure
- Based on investment objective

BASED ON STRUCTURE

- Open ended
- Close ended

Open ended

Open-ended funds are what you experience as a mutual fund. These funds do not exchange in the open merchandise. They don't have a restraint as to how many units they can concern. The NAV revised daily because of market variations of the shares or stocks and bond rate in the fund. Open-ended mutual fund units are buy and sell on need at their Net Asset Value or NAV which is rely on the value of the fund's basic securities and is valuated at the end of every trading day. Investors bought units precisely from a fund. The investments of the open-ended fund are estimated at the fair market value which is also the closing market value of listed public securities. These funds also do not have a rigid maturity period.

Close ended

Closed Ended fund issues a rigid number of units that are marketed on the stock exchange. It operates much more like an exchange-traded fund than a mutual fund. They are started via NFO to increase money and then traded in the open market just like a stock. Though the price of the fund is based on the NAV, the absolute price of the fund is impressed by supply and demand as it is grants to trade at values above or below its absolute or real value. Hence, closed-end funds can market at superior or discounts to their NAVs. Units of closed-end funds are buy and sell by brokers. Closed mutual funds generally trade at discounts to their basic asset value. These funds have a rigid maturity period.

BASED ON ASSET CLASS

- Equity fund
- Money market fund
- Debt fund
- Hybrid fund
- Tax saving fund

Equity fund

These funds are lended in equity stock or shares of the companies. They grant high result, that's the sense they are desinged as a high-risk funds.

Money market fund

These funds are lender in dissolvable instruments, such as CPs, T-Bills etc. They are designed as quite safe investment option, as you get an existing yet modest return on your investment. They are a perfect opportunity for investors who need to invest their sufficient funds

Debt fund

These assets are invested in the debt like government bonds, company debentures, and fixed income assets. As they generate rigid returns, they are known to be a secure investment instrument.

Hybrid fund

These types of assets are invested in different asset classes. There are occasions when the fraction of debt is lower than equity; it could be alternative way around as well. In this manner, return(s) and risk(s) drives a perfect balance

Tax saving fund

These funds make investment mainly in the equity shares. Tax-saving funds arrange an investor eligible to demand tax deductions under the Income Tax Act. Risk factor evolved in these funds is commonly on the higher side. At the same time, greater returns are grants if the funds' achievement is at par.

BASED ON INVESTMENT OBJECTIVE

- Growth fund
- Liquidity fund
- Income fund

Growth fund

These schemes let investors lend their savings in equity stocks. The purpose behind this is that it provides capital appreciation. Though these funds are examined to be risky, they are investigated ideal for investors having an investment timeline that’s long-term.

Liquidity fund

The savings invested in liquid funds is invested mainly in short-term and at times, very short-term investment instruments like CPs, T-Bills etc. with the sole objective of providing liquidity. These schemes are minimum on the risk factor and they provide modest returns on investment. These schemes are idle for investors having short-term investment timelines

Income fund

These schemes let you invest your savings mainly in fixed-income instruments, such as debentures, bonds etc. They deliver the purpose of providing proper income and capital protection to the investors.

ONE TIME INVESTMENT PLAN

A lump sum amount is defined as a sole complete sum of money. A lump sum investment is of the complete amount at one go.

Lump sum investment is investigated as one way of investing into mutual funds. The other approach being that of systematic investment plan, popularly known as SIP. Usually lump sum investments are ventured by big players and investors, in stocks especially those linked to assets that are likely to acknowledge in the long term, making the investment beneficial except in cases of high volatility.

SYSTEMATIC INVESTMENT PLAN

A definite amount is invested for a continuous period at regular intervals under this plan. SIP is similar to a routine saving scheme like a recurring deposit. It is a approach of investing a fixed sum regularly in a mutual fund. SIP grants the investor to bough units on a given date every month. The investor determine the amount and also the mutual fund scheme. While the investor's investment residues the same, more number of units can be bought in a refraining market and less number of units in a rising market. The investor artistically participates in the market swings once the option for SIP is made.

SIP assures averaging of rupee cost as rational investment ensures that average cost per unit fits in the lower range of average market price. A capitalist can either allow postdated cheques or ECS instruction and the investment will be made routinely in the mutual fund determined for the required amount. SIP commonly starts at minimum amounts of Rs.1000/- per month and upper limit for using an ECS is Rs.25000/- per instruction.

SIP OR ONE-TIME: HOW SHOULD INVEST?

One-time investment

In this method, you make a onetime payment of a appreciable sum of money.

SIP

On the various hand, in an SIP, a rigid amount of sum is deposited at regular intervals of time in a mutual fund scheme. In short, one-time investment mode can be chosen if you have money in hand right now that can be invested and an SIP can be chosen if you are expecting a regular inflow of money in future.

KEY DIFFERENCE BETWEEN SIP AND ONE TIME INVESTMENT PLAN SIP

- Periodic investments in a tenure
- Earns better during market lows
- SIPs can guard investments from liable market crash

ONE TIME INVESTMENT PLAN

- One-time investment in a tenure (lump sum)
- Earns better during market highs
- One-time investments can direct to major loss during market crash, which happens often enough.

CONCLUSION

On the basis of this study, I can conclude that Mutual Fund SIP is a monthly based investment plan through which an investor could invest a fixed sum into mutual funds every month at pre-decided dates. This barriers the investor from market instability and derives maximum benefit as the investment is done at regular basis irrespective of market conditions. SIP is a feature especially designed for investors who wish to invest small amounts on a regular basis to build wealth over a long term. It inculcates the habit of regular savings and does not encourage timing and speculation in the markets. The study would be helpful for the small investors by entering into capital market by using the Systematic investment plan.

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