

What is Stock SIP & who should invest in it?

Systemic Investment Plans (SIPs) have become extremely popular in India in the last couple of years due to their simple and effective way of building wealth. Investing in the equity market doesn't require a large upfront investment when you choose the SIP route. Like investing in mutual fund schemes through SIP, investors can also choose stock SIPs to invest in their favourite stocks directly. It is an affordable route for those seeking to build a portfolio of quality stocks with the aim of earning good returns in the long term. Let's explore how to do SIP in stocks in this blog.

What is Stock SIP?

A Stock SIP is a systematic and disciplined way of investing directly in stocks. Stock SIP, in the context of mutual fund SIP investments, where investments are in a diversified pool of securities, means investing a prefixed amount of money at pre-fixed intervals in the underlining securities – be it weekly, monthly, or quarterly. A SIP in the stock market offers a basic advantage to accumulating the shares of a company in a gradual way, where one does not need to worry about the timing of the market.

The meaning of SIP in the stock market revolves around the concept of periodic investing. Instead of making a lump-sum investment, you purchase a fixed number of shares or invest a fixed amount in selected stocks over a period of time. This strategy helps average the cost of the stocks and minimises the impact of market volatility.

Why do Investors like Stock SIP?

Investors are increasingly drawn to SIP in the stock market for several reasons. First, it introduces discipline into the investment process. By committing to regular investments, investors are less likely to be swayed by short-term market movements or emotional decision-making. This disciplined approach is crucial for long-term wealth creation.

Second, stock SIP offers the benefit of rupee cost averaging. Since you invest a fixed amount regularly, you buy more shares when prices are low and fewer when prices are high. Over time, this averaging reduces the overall cost of your investment, potentially leading to better returns.

Third, stock SIP is flexible. Investors have the freedom to select the stocks they believe in and can adjust the amount and frequency of their investments according to their financial goals and risk tolerance. This flexibility allows investors to build a customised portfolio that aligns with their investment strategy.

Some More Details on Stock SIPs

To understand what SIP is in the stock market more comprehensively, it's essential to look into the operational aspects of stock SIPs. Setting up a stock SIP typically involves choosing the stocks you want to invest in and deciding the amount and frequency of your investments. Many brokerage platforms in India offer automated stock SIP services where you can set up these parameters, and the platform will automatically execute the trades on your behalf.

When considering how to do SIP in stocks, it's essential to research the companies you want to invest in thoroughly. Look at their financial health, growth prospects, and industry position. Since stock SIPs involve direct exposure to individual stocks, the risks can be higher than mutual fund SIPs, which are inherently diversified.

Additionally, some investors may opt for a combination of SIPs in mutual funds and direct stocks, often referred to as SIP vs. stocks. This hybrid approach allows investors to benefit from the stability and diversification of mutual funds and the potential for higher returns from direct stock investments.

Who should invest in Stock SIP?

Stock SIPs are not for everyone, and understanding whether they suit you depends on factors such as your risk appetite, investment goals, and market knowledge.

1. A stock SIP can be a rewarding investment strategy if you have a higher risk tolerance and a good understanding of the stock market. The direct exposure to stocks means that while the potential returns can be higher, so can the risks.
2. Investors with a long-term horizon are more likely to benefit from. The longer you stay invested, the more you can benefit from rupee cost averaging and compounding, which can significantly enhance your returns over time.
3. If you have experience in stock market investments and are confident in selecting stocks, a stock SIP might be a good fit. It requires regular monitoring and analysis, so it's better suited for those who can dedicate time to managing their portfolio.
4. Offers the flexibility to choose specific stocks and modify your investment amount as needed. If you prefer having control over your investment choices rather than leaving them in the hands of a mutual fund manager, this option could be ideal.

Can SIP in stocks fail?

While the stock SIPs are useful from the perspective of implementing a systematic and disciplined approach towards investing, risks are involved, too. In some instances, SIPs in stocks might not meet investor expectations. Here are the instances under which SIPs in stocks may fail:

- If stock price exceeds the SIP mandate amount:
If a particular stock price shoots up significantly from the pre-set amount as per our SIP mandate, then in the regular process of investing through SIP, you may not be able to buy even one share of that stock. Your money would, then, lie idle or, alternatively, you will have to adjust your SIP allocation by increasing your investment. This can, in turn, affect the flow of your SIP investments.
- Wrong stock choice/selection:
Unlike an SIP of a mutual fund, where investments are diversified in many stocks, stock SIP focuses on particular companies. If the stocks chosen do not perform well or financially collapse, the SIP return might suffer negatively. Diminishing or weak performance of the stock, lack of research, and market volatility can minimise the potential benefits of a stock SIP.

- **Impact of Market Volatility:**
Although SIPs are structured to neutralise the volatility of the equity market through rupee cost averaging, losses would still incur if there is extreme fluctuation in the market. This is especially true for short-term investors. If the stock market declines for a longer period, your SIP in stocks will reflect a decline and you will have to wait for the market to bounce back again to start realising profits.
- **Lack of Diversification:**
Limited diversification is one of the most prominent reasons why stock SIP fails. If your stock SIP focuses on just a few stocks or a single sector, then it will be more prone to market fluctuations. Diversifying your stock SIP into multiple sectors or industries is crucial for counterbalancing risk.

Conclusion

A stock SIP provides a structured and disciplined approach to stock market investing, combining the benefits of systematic investing with the potential for higher returns from individual stocks. It is an excellent option for investors looking to build a portfolio over time while mitigating the risks associated with market volatility. However, effective planning, stock selection, and regular monitoring are required. Start your stock SIP journey today and take a step closer to achieving your financial dreams!