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Uncovering the Best Investment Strategy: SIP or Lump sum?

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Abstract:

Mutual funds have not only contributed to the India's growth story but have also helped families tap into the success of Indian Mutual fund Industry. Globally, there are thousands of firms offering various mutual funds schemes with different investment objectives. This study's main objective is to compare both Systematic Investment Plan and Lumpsum Investment Plan and help the investors to make best choice. It attempts to give a very simple investment strategy for the investors who are not experts in the field but want to make money from the market without much hassle in their path. In this paper, analysis is done by using compounded annual growth rate (CAGR) for lumpsum investment plan and extended internal rate of return (XIRR) for Systematic Investment Plan. The conclusion drawn from this research paper is that Systematic Investment Plan is better as compared to Lumpsum Investment Plan.

Keywords: Lumpsum Investment, Systematic Investment, Returns, CAGR, XIRR**.**

1. Introduction

In the contemporary world, every financial decision we make as humans is based on the relationship between time and money. Whether it involves setting money aside for a future occasion or thinking about taking out a loan to cover an immediate financial necessity Every day, everywhere, the time value of money has a big effect on people. (Bartleby Research, 1993). Money management is referred to as finance. It involves things like budgeting, forecasting, borrowing, lending, and investing. The capacity to manage money is referred to as financial literacy. A strong foundation in these financial skills will help one achieve many different life objectives, including retirement, education, and even taking a vacation. (Chaluvadi, 2020). Production, consumption, and trade are the economy's three main activities. Production and consuming occur simultaneously and are linked to and reliant on one another, output fuels consumption, while consumption fuels output. (Kwatiah, n.d.)

The stability and well-being of an individual's personal finances, as well as the health of the economy, rely on their investments and savings (Farrell, Fry, & Risse, 2016). Savings enable people to build assets for the future, better withstand economic shocks like losing their employment, and use credit less frequently to cover unforeseen expenses (Ruszczyk, Castán Broto, & McFarlane, 2022). Savings also enable welfare-improving pursuits like entrepreneurship and accessibility to education and training. Savings by households, which enable banks to lend to companies and finance investment in firms either directly or indirectly, are the main source of macroeconomic growth (Lewis & Flore-Anne, 2012). Allocating funds to assets with the intention of improving your future is known as investing. The goal of investing is to generate profits (Hanjra & Qureshi, 2010). People who get monthly or one-time surplus funds are always looking for ways to invest it wisely so they may generate returns that at the very least outperform inflation. (Garín, Lester, & Sims, 2016) The people are a heterogeneous group, depending on their capacity for risk-taking, persons of diverse sizes, economic statuses, and levels of expertise do not all require the same level of protection. People who have extra money and are motivated to make money can be referred to as investors in this context (Farrell, Fry, & Risse, 2016).

An investment is a possession or product made with the intention of making money or getting attention. A monetary definition of an investment is the purchase of assets that will not be utilized immediately but will instead be used to create wealth down the road. **(Demir, 2009)**. An investment in business is a financial asset purchased with the expectation that it will provide income in the future or that it will be sold at a higher price in the future. The investments are the source of generation of revenue and there are different avenues available for investment. One among them is Mutual Fund Investments. A mutual fund was first established in India in 1963 when the Unit Trust of India (UTI) was established by the Indian government. A mutual fund is a trust that combines the savings of several individuals who have similar financial objectives (Renneboog, Ter Horst, & Zhang, 2008). The money accordingly raised is subsequently invested in the capital market through the purchase of shares, debentures, and other instruments. Owners of the units share the profits from these investments and the capital gains in relation to the number of units they possess.

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Mutual Fund invites potential investors to participate the fund by providing a range of solutions to meet investors' demands. Growth plans are perfect for long-term investors that would like to continue growing. Every investment carries a certain amount of risk, and the risk profile varies depending on the variable return rate (Renneboog, Ter Horst, & Zhang, 2011). Depending on their individual needs and goals, investors have a variety of investment alternatives. Investor decisions are influenced by the risk-return relationship. The psychology of investors influences different investment strategies and choices (Charasia, 2017). Investigations have been done on the variables that affect people's investment behavior as well as the numerous investment options available. While equities are a liquid, high-risk, high-return investment, debt is a low-risk, fixed-return security. Bonds and mutual funds are low-risk investments that yield consistent returns. Investments with minimal risk and poor return include company and bank deposits, as well as post office savings, PPFs, and insurance policies. Although they will do not offer a return on investment, real estate and gold do offer capital growth. (Geetha & Ramesh, 2012). The most common investment options are savings accounts at banks and insurance companies, with high rates, tax advantages, and safety being the most crucial criteria in determining investment decisions. The employed class has started to understand the need of saving and wisely investing their money as a result of the ongoing rise in the average person's standard of living. (Sood & Kaur, 2015).

The best investment for the average person is a mutual fund since it gives them the chance to make very inexpensive investments in a professionally managed, diversified portfolio. The current market worth of a fund's holdings is represented as a per-share amount by the term "net asset value," (NAV). The net asset value (NAV) is calculated by dividing the entire value of the portfolio's securities by the number of shares of the mutual fund that have been issued actively in issue. The price fluctuates according to the market value of the securities held by the portfolio at the end of each business day. The present study seeks to broaden the theory of investment strategy in mutual fund by determining which is the optimum investment alternative that will be more beneficial to the investors. The main objective of this study is to examine the investment options, Systematic Investment Plan (SIP) and Lumpsum Investment Plan (LIP), compare the returns produced by both investment options using XIRR and CAGR, and determine which is the optimum mode of investment plan. The study reveals that the best mode of investment strategy as Systematic Investment plan (SIP).

2. Review of Literature

Impact of social capital on economic outcomes has attracted economists' curiosity for a very long time. In the literature, there are two conflicting views: **(Putnam, Leonardi, & Nanetti, 1993)** asserts that "associations cultivate cooperative, supportive, and altruistic tendencies in their members." Transactions that improve welfare may be made possible by the group members' trust and cooperative attitude. On the other hand, **(Olson, 1982),** claims that associational activities encourage the establishment of self-serving interest groups including cartels, collaborating elites, and lobbies that harm market efficiency and economic growth. Firms are under pressure from the capital markets to put a focus on short-term earnings that is excessively strong at the expense of long-term investments like innovation **(Gustavo, 2011).** Globally, rapid economic expansion has consistently raised people's incomes and purchasing power. Indeed, as a result of this rise, they now have a greater need and desire for a Several distinctive financial products and services **(Stuiver, et al., 2017).** In the quickly evolving world of today the financial products have drawn a lot of attention from individuals and have encouraged them to make investments in order to enhance their earnings and revenue using a variety of instruments. Additionally, people have utilized investments as a tool in their own financial planning. The stock market has drawn the most investors out of all the different forms of investment instruments since it offers greater profits. It does, however, carry a significant amount of risk for investors. Due to this, most investors have seen large stock market losses, which has prompted investors to act in a drastic manner **(Agrrawal, Waggle, & Sandweiss, 2017).** Recent years have seen investors shift their attention from high risk, rewarding stock market assets to low risk, consistent yielding vehicles like unit trusts. According to **(Hans, 1999)** The unit trust, referred to as a mutual fund, is a type of group investment established by a trust deed **(Chang, Nelson, & Witte, 2012).**

There is a great likelihood that investing in unit trusts will involve substantial risks because the invested funds are professionally managed by a qualified fund manager. As a result, it offers a meager degree of earnings. Many investors, particularly working individuals, choose a unit trust, according to research by **(Shafee, 2018)**, The unit trust offers low risk but steady returns, making it the most popular type of investment. Additionally, unit trust firms can use this tool into their financial planning to aid people in continuously building up their financial resources in order to attain their financial objectivesStudies have indicated that there are many factors that influence investors' investing behaviour, and this study presents considerable evidence that understanding investment behaviour offers a number of venues for a wide range of users. According to **(Waweru, Maina, Munyoki, & Uliana, 2008)**, investors' behavior in making investments is influenced by their financial state as they consider investing as a type of financial planning that will increase their wealth. As a result, a person's financial situation influences on the money invested and how much the investors are willing to put into the financial assets like shares. According to research by **(Tan, Joseph, Edward, & Thomas, 2008)**, an investor's financial situation has a significant impact on both the amount of money they invest and

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the level of risk they are ready to take. While comparing the investors who are financially viable tend to accept the risk by investing in riskier investments as it generates more returns, and those with less financial capacity are basically risk averse and prefer unit trusts as their investment vehicle. According to **(De Bondt & Thaler, 1987)** study, investors' risk-taking behavior and their choice of investments are related.

According to **(Obamuyi, 2013)** study, investors' capital market investment decisions are influenced by socioeconomic factors. Due to their better financial resources compared to investors from lower socioeconomic classes who have less money to invest, people from higher socioeconomic classes or financial backgrounds may be able to tolerate higher risks. As a result, these relationships have an impact on various groups of people. Risk-seeking persons are more inclined to overestimate positive outcomes, which contributes to a lower perceived risk, whereas risk-averse people are more likely to underestimate bad consequences. **(Schneider & Lopes, 1986)** It is assumed that there would be an interaction between financial risk perception and the choice to allocate risky assets given the direct association between risk tolerance and risky asset allocation. **(Cardak & Wilkins, 2009)** Additionally, the risks determine the type of investment they should make in order to achieve a return commensurate with the level of risk taken by them. In the case of a decrease in share price, the investor can afford the losses. Geopolitical and macroeconomic issues can have a significant impact on stock values, causing changes in the equity market. Therefore, predicting the market's movements is impossible for an investor. Additionally, emotions frequently influence poor purchasing decisions, which can ultimately cause wealth depletion. A mutual fund has proven to be a great tool for most individual investors who want to build large wealth over a long investing horizon. Investors frequently have two options when investing in mutual funds: either to invest a large payment or through sip. Before investing their hard-earned money in the equities market, investors need have a thorough understanding of these two approaches **(CRED, 2021)**. Bonds, stocks, and other asset types are included in mutual funds' corpus of investments. The investment options available in mutual fund is of two types: SIPs and lump sums. Depending on a variety of criteria, people have the option to invest in one time or through a systematic investment plan (SIP). **(Digit Insurance, 2022).**

An amount that is paid in one lump sum is referred to as a lump sum. When investing in a lump amount, the complete sum of money is put down or invested all at once. One method of investing in mutual funds is examined: lump sum investments. Significant players or investors with a higher risk tolerance often favour lumpsum investments because they are one-time investments. The one-time investment capitalises on ideal market timing and a sound market strategy. The only difference between an investment and a lumpsum pay-out is the amount of money you will get as a total. The alternative strategy is referred to as a systematic investment plan, or SIP.

Large players or the high-net-worth individuals and investors frequently invest in shares in lump sums, particularly those linked to assets that are expected to become more widely recognised over time. This makes the investment profitable, barring circumstances of excessive volatility **(Kishori & Midhun, 2019).** Many mutual fund companies offer their clients a Systematic Investment Plan (SIP), which enables them to invest in mutual funds on a recurring basis rather than in one lump sum. The most common time frames for investing are weekly, monthly, and quarterly. SIP, or systematic investment plan, enables you to make recurrent investments in mutual fund schemes. SIP enables you to make little, recurring investments that add up over time to significant gains. Financial discipline is taught through a systematic investment plan (SIP). Saving money first and then spending it is the foundation of the SIP idea. A systematic investment plan is the easiest and most convenient way for an investor to start investing. The SIP is an approach of investing in mutual funds that enables investor to make predetermined investments at regular intervals. He can choice in the best investment strategy and the frequency of the investments. **(Jayeshbhai & Tollwala, 2022)**. One of the main advantages of SIP is risk mitigation. Studies have shown that SIPs help investors in managing market volatility and reducing the impact of market fluctuations on their investments. A study found the power of compounding and rupee cost averaging adds value to the investors of SIP, which helps in reducing the overall risk associated while investing in the stock market. On the other hand, Lumpsum investments are exposed to market risks, as the entire amount is invested at once, and the investor bears the full impact of market fluctuations. The potential returns from SIP and Lumpsum investments are also a crucial factor in determining the best investment strategy. Several studies have compared the historical returns generated by SIP and Lumpsum investments. The studies also show that while comparing the returns of SIP and Lumpsum investments in mutual funds in India it was found that SIPs tend to outperform Lumpsum investments over the long term. The study concluded that the disciplined investment approach of SIP, along with the benefit of rupee cost averaging, leads to better returns compared to Lumpsum investments. Another factor to consider while comparing SIP and Lumpsum investment strategies is market timing. Lumpsum investments require the investor to time the market correctly to make a substantial profit. However, market timing is challenging and can be risky, as it involves predicting the market movements accurately. On the other hand, SIPs eliminate the need for market timing, as the investments are made at regular intervals, irrespective of market fluctuations. Researchers have found that SIP investors tend to benefit from avoiding the risk of market timing, as they invest in a disciplined manner and avoid making impulsive investment decisions. Rupee cost averaging is a significant advantage of SIP investments. It allows investors to buy more units when the market is down and fewer units when the market is up, thus averaging the cost of investment. This helps in reducing the impact of market volatility on the overall investment portfolio. Few studies have examined that SIP investments tend to benefit from cost averaging, leading to

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better returns compared to Lumpsum investments, where the entire amount is invested at once. Research on investment possibilities has been extensively studied, according to a review of scholarly literature. Planning for finances, risk and return, the Systematic Investment Plan, and the Lumpsum Investment Plan have all benefited from empirical research that has generated positive results. The current study adds further information to the body of research on choosing the optimum investment strategy.

3. Methodology

3.1 Sample and Data

Mutual funds are investment vehicles that pool money from multiple investors to purchase a diversified portfolio of stocks, bonds, and other securities. The fund is managed by professional fund managers who invest the money on behalf of the investors. The fund manager allocates the mutual fund's assets into a diversified portfolio of securities, with the goal of generating profits for the investors. We have made a study and analyze about Systematic Investment Plan and One Time Investment Plan.

We have computed the returns produced by schemes across various time frames using the Systematic Investment Plan and the One-Time Investment Plan. We have compared the returns generated by both investment plans and to identify the better mode of investment. The methodology we have adopted here is quantitative research and the nature of data is secondary data because we have analyzed only the past performance of the funds returns in both sip and lumpsum. Data were collected through various the website such as Amfi, CAMS and factsheet published by respective fund house.

To accurately calculate and compare the returns of mutual funds and analyze their performance, it's important to consider the time period of the investment. For example, if we are comparing the returns of two mutual funds, we need to make sure that both funds have been in existence for the same time period. We have selected the funds that have a similar time period or investment horizon, we can ensure that the comparison is fair and accurate. The period of data collection is from 01/01/2018 – 31/12/2022 which is five years.

The sample size for this study consists of 72 mutual fund schemes obtained from 8 funds of Equity Scheme of Regular growth plans (Large cap, Large& Midcap, Flexicap, Midcap, Small cap, ELSS, Hybrid and Focused funds) of 9 institutions. i.e., Aditya Birla Sunlife Mutual Fund (ABSL), Axis Mutual Fund (Axis), Edelweiss Mutual Fund (Edelweiss), HSBC Mutual Fund (HSBC), ICICI Prudential Mutual Fund (ICICI), Kotak Mutual Fund (Kotak), Nippon Mutual Fund (Nippon), SBI Mutual Fund (SBI) and HDFC Mutual Fund (HDFC).

3.2 Scope and Significance of the study

The current study's scope is restricted to a few plans offered by specific institutions in the mutual fund sector. The Net Asset Value (NAV) were collected from the websites for the calculation of returns. In order to avoid missed data issues, the funds based on their inception date for the period of 5 years i.e., from 2018- 2022. This data is used to compare the returns of both investment plans and consider which is the best investment plan using analysis. The scope of the study is to find the best investment plan i.e., SIP or Lumpsum investment plan that provides with the optimum benefit which is the returns.

3.3 Statistical tools

For the calculation of Return on Investment, the statistical tools used in this research are XIRR and CAGR which are stated as follows:

CAGR (Compound Annual Growth Rate) and XIRR (Extended Internal Rate of Return) are both financial metrics used to measure the investment performance of mutual funds.

For Systematic Investment Plan (SIP), we use Extended Internal Rate of Return (XIRR). The XIRR is used for the schedule of cash flows occurring at irregular periods. **XIRR** is typically used to measure the performance of systematic investment plans (SIPs), which involve investing a fixed amount of money at regular intervals (e.g. monthly) over a period of time. XIRR takes into account the variation in the invested amount over time and calculates an average annual growth rate for the investment.

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XIRR (Values, Dates, Guess)

For Lumpsum investment Plan (LIP), we use **Compounded Annual Growth Rate (CAGR)**, which shows the annual growth or decline of the fund over a given time frame. The CAGR is used to measure the performance of lump sum investments, where the entire amount is invested at one time. CAGR takes into account the fact that the invested amount is constant over time and calculates the rate of return that would be required to generate the actual cash flows received from the investment.

CAGR = (Final Investment Value/Initial Investment Value) ^(1/n) –1

4. Empirical Results

In order to discover and analyse the best investment plan which provides with better returns and minimum risk, we have used the above-mentioned statistical tools in order to ascertain the performance of the funds over a given period of time, i.e., 5-year period. For the calculations of XIRR and CAGR we have taken 8 funds of the 9 institutions for the 5-year period (2018-2022). The results are shown in the below tables: The results have analysed that the majority of the funds have better returns in Systematic Investment Plan. It is because of the benefit of SIP, i.e., rupee cost averaging. It is useful when the market is highly volatile.

Table 1: SIP vs Lump sum

Institution	Large cap funds		Large & midcap funds		Flexicap funds		Midcap funds	
	SIP	LIP	SIP	LIP	SIP	LIP	SIP	LIP
ABSL	**13.36**	11.65	**10.14**	8.33	**12.90**	11.50	**13.62**	8.33
Axis	10.48	**14.24**	16.61	**18.11**	11.05	**15.05**	16.60	**18.85**
Edelweiss	12.99	**13.07**	**15.29**	14.25	**13.77**	12.10	**19.43**	14.74
HSBC	12.02	**12.34**	**15.17**	12.03	**11.72**	8.90	**12.50**	8.35
ICICI	**15.10**	13.65	**18.84**	14.95	**10.52**	3.81	**17.23**	12.75
Kotak	13.96	**14.10**	**16.01**	14.76	**13.21**	13.13	**19.84**	16.40
Nippon	**15.59**	12.74	**14.01**	8.12	**2.56**	0.89	**19.80**	11.65
SBI	**14.05**	12.85	**17.70**	15.07	**12.97**	11.82	**20.40**	14.87
HDFC	**14.42**	11.81	**17.87**	14.30	**18.88**	14.44	**19.49**	14.99

Table 1, summarizes all the Returns (XIRR and CAGR) generated by both the Investment plans, i.e., SIP and LIP of the Large cap, Large & Midcap, Flexicap, Midcap Funds of the 9 institutions.

The **Large cap Funds** the, SIP of the Nippon (15.59%) is the top performing and has highest annual average returns and the Axis (10.48%) is the least performing and has the lowest annual average returns. For lumpsum investment, Kotak (14.10%) has the highest CAGR and ABSL (11.65%) has the lowest CAGR.

For **Large and mid-cap funds**, in case of SIP the ICICI (18.84%) is the top performing and has highest annual average returns and the ABSL (10.14%) is the least performing and has the lowest annual average returns. For lumpsum investment, Axis (18.11%) has the highest CAGR and ABSL (8.33%) has the lowest CAGR.

The SIP of **Flexi cap funds**, the HDFC (18.88%) is the top performing and has highest annual average returns and the Nippon (2.56%) is the least performing and has the lowest annual average returns. For lumpsum investment, Axis (15.05%) has the highest CAGR and Nippon (0.89%) has the lowest CAGR.

In case of **Midcap funds**, the SIP of Nippon (20.40%) is the top performing and has highest annual average returns and the ICICI (12.50%) is the least performing and has the lowest annual average returns. For lumpsum investment, Axis (18.85%) has the highest CAGR and ABSL (8.33%) has the lowest CAGR. It shows that in all the funds, majority of the institutions favours Systematic Investment Plan (SIP).

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Table 2: SIP vs Lump sum

Institution	Small cap funds		ELSS funds		Hybrid funds		Focused funds	
	SIP	**LIP**	**SIP**	**LIP**	**SIP**	**LIP**	**SIP**	**LIP**
ABSL	**13.13**	4.66	**6.63**	5.79	9.66	**10.47**	**12.75**	11.63
Axis	**23.13**	22.67	8.75	**11.37**	6.82	**8.16**	7.60	**10.34**
Edelweiss	**29.51**	22.69	**12.26**	10.63	13.56	**13.57**	-2.49	**0.02**
HSBC	**21.45**	13.16	**10.83**	8.36	**8.65**	8.36	12.45	**12.69**
ICICI	**23.35**	15.53	**14.53**	13.84	11.00	**12.10**	**16.50**	14.95
Kotak	**23.62**	17.89	**16.52**	15.42	10.29	**10.40**	**17.06**	13.68
Nippon	**26.13**	11.65	**13.30**	11.65	9.48	**11.65**	**16.86**	12.77
SBI	**22.89**	16.72	**15.55**	12.05	11.86	**12.65**	13.24	**13.93**
HDFC	**20.94**	14.91	**15.29**	10.00	**16.49**	13.62	**19.37**	11.66

Table 2, summarizes all the Returns (XIRR and CAGR) generated by both the Investment plans, i.e., SIP and LIP of the Small cap, ELSS, Flexicap, Hybrid and Focused funds of the 9 institutions.

For the **Small cap Funds**, the SIP of Edelweiss (29.51%) is the top performing and has highest annual average returns and the ABSL (13.13%) is the least performing and has the lowest annual average returns. For lumpsum investment, Edelweiss (22.69%) has the highest CAGR and ABSL (4.66%) has the lowest CAGR.

For the **ELSS Funds** (tax saving), the SIP of Kotak (16.52%) is the top performing and has highest annual average returns and the ABSL (6.63%) is the least performing and has the lowest annual average returns. For lumpsum investment, Kotak (15.42%) has the highest CAGR and ABSL (5.79%) has the lowest CAGR

The SIP for the **Hybrid funds**, the HDFC (16.49%) is the top performing and has highest annual average returns and the Axis (6.82%) is the least performing and has the lowest annual average returns. For lumpsum investment, HDFC (13.62%) has the highest CAGR and Axis (8.16%) has the lowest CAGR.

For the **Focused Funds**, the SIP, the HDFC (19.37%) is the top performing and has highest annual average returns and the Edelweiss (-2.49%) is the least performing and has the lowest annual average returns. For lumpsum investment, ICICI (14.95%) has the highest CAGR and Edelweiss (0.02%) has the lowest CAGR.

It shows that all the funds except the Hybrid funds, majority of the institutions favor Systematic Investment Plan (SIP). In Hybrid Funds the CAGR is greater than that of XIRR.

5. Conclusion and recommendations

SIP, or systematic investment plan, is a method of investing in mutual funds that is based on a monthly schedule and allows investors to make set monthly investments at predetermined times. As long as the investment is made on a regular basis regardless of market conditions, the investor is protected from market instability and reaps the greatest rewards. The growth of a lump sum investment is always greater than a SIP if we have a long investment horizon, say for 10-15 years. SIP works best for people who don't have a lump sum of money but anticipate ongoing surplus in the future. Given that they have a larger number of shares, lump sum investors will benefit if market volatility continues to be high. It is advisable for the investors to adopt one time investment if they expect the market to significantly move in an upward in future. It is advisable for the investors to adopt SIP investment if they expect the market to significantly move downward in future. The fact that systematic investors will receive a minimum number of shares each month is the reason they will experience modest profits at the same time. The only reason Lumpsum investment plan (LIP) yields a low return is because fewer shares were purchased compared to a systematic investment strategy. From the study after the analysis, it is found that the Systematic investment plan of small cap funds are the top performing as it yields more than 20% of the annual returns when compared with the other funds. Investing in the small cap funds is much riskier than the other funds So, this study proves that higher the risk involved better will be the Returns. According to the concept of rupee cost averaging, investing in multiple transactions can lead to more benefits. This is because as the NAV (Net Asset Value) of shares decreases, the investor can purchase more units with the same amount of money, potentially resulting in a lower average cost per unit over time.

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