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A STUDY ON THE POWER OF COMPOUNDING WITH SPECIAL REFERENCE TO SIPs

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ABSTRACT

Systematic Investment Plan is regarded as user friendly especially to medium or low income people. They can contribute to a formal mutual fund like LIC, UTI or ICICI prudential fund. The longer the period the longer the benefit. Albert Einstein called the power of compounding as the eighth wonder of the world. Those who understands it will earn money and those who ignore this magic, they will suffer in future. The present study is descriptive one. The data has been collected from secondary sources like text books, magazines, newspapers, you tubers etc. The main findings of the study are The Systematic Investment Plans are offered by mutual funds such as LIC, UTI and commercial banks and post offices. So, it is very easy to investors to reach out the branch, The fund manager in the mutual fund will pool the small savings of poor people and invest in the diversified portfolio of investments such as gold, shares, currency, real estate etc. Financial education is the essential education to think alternatively. One case study of Eicher Motros demonstrates that buying shares is a wise decision instead of buying liability – bike. Movement to movement, an individual has to think rationally that is it this expenditure falls under need, want or waste. It is finally concluded that financial education is available at free of cost to all Indians but Indians must have passion to learn and earn money.

Key Words: SIPs, Power of Compounding, Alternative thinking, LIC, UTI.

1. INTRODUCTION

Systematic Investment Plan is scheme of investing monthly the fixed amount on regular basis. It is offered by mutual funds such as Life Insurance Corporation of India, Unit Trust of India, State Bank of India, HDFC Bank, Post offices etc. It is very popular in these days since people does not have regular investments. Their investments are also fluctuating. This never looks nice. So, to avoid irregularity in savings and investments, SIPs are developed by the mutual funds and banks. They are very helpful to all class of people like high, medium and low income people. The monthly investments can be very small and large. So, it suits all people. It creates miracles over long run by creating financial discipline among investors.

There are various investment opportunities in Systematic Investment Plans (SIP). Mutual Funds are best ways for SIPs. There are various types of mutual funds. Large cap, small cap, mid cap, flexi cap etc. Blue chip companies like Reliance Industries Limited, Tata Consultancy Services, HDFC Bank, Infosys, Wipro, State Bank of India are good avenues for large cap mutual funds. Rites, Hindusthan Copper, Ola Electric Mobility, TVS company, Adithya Birla Sun Life, Manappuram Finance, Reliance Power, Kalpatharu Projects International, Karur Vaishya Bank, V-guard Industries, Whirlpool India, Bata India, Ceat tyres, are some of Mid cap opportunities for investment in SIPs. Advani Hotels, Systematrix Corporation, Deepak Buildres, Orient Technologies, Kriti Nutrients, Prakash Pipes, Rajesh Power, Ganesh Green, Vinus Pipes are some avenues for small cap investment opportunities. The selection of asset allocation is highly influenced by the risk appetite of the investor. The aggressive investors select more on small cap mutual funds which give returns more than 50% p.a.

2. REVIEW OF LITERATURE

Chandra, P. (2012) conducted an extensive study on investor behaviour towards SIPs and highlighted the impact of compounding in wealth creation. The study revealed that SIPs not only help in disciplined investment but also utilize the power of compounding effectively due to regular contributions over the long term. The paper also emphasized that early investments and long-term horizons significantly increase corpus size through compounding.

Gupta, L., & Jain, R. (2015) explored the effectiveness of SIPs in comparison to lump sum investments. The research found that SIPs provide a better average cost advantage and compounding benefits over time, especially in volatile markets. The study also illustrated how SIPs take advantage of rupee-cost averaging while leveraging the power of compounding.

Kumar, A., & Sharma, M. (2017) investigated the growth potential of SIPs using compounding as the core metric. The study demonstrated that the longer the investment horizon, the more significant the compounding impact. It also concluded that SIPs are ideal for average retail investors seeking long-term wealth generation with lower risk exposure.

Mehta, P., & Shah, K. (2018) examined mutual fund performance through SIPs and evaluated how compounding influenced returns. The findings suggested that SIP investors who remained consistent over at least 10 years gained more due to exponential growth powered by compounding, especially when reinvestment of returns was done effectively.

Rao, K., & Desai, D. (2020) assessed SIPs as a financial planning tool among young professionals. The research emphasized that due to compounding, even small contributions made regularly can accumulate into a significant sum over decades. The study promoted financial literacy regarding the benefits of starting early and investing regularly through SIPs.

Bhattacharya, S. (2021) analysed historical data from equity mutual funds to project future SIP growth through compound interest formulas. The study revealed that consistent investments with reinvestment of earnings provided substantial returns over long durations, validating the theory that compounding acts as a wealth multiplier in SIPs.

3. METHODOLOGY

3.1 STATEMENT OF THE PROBLEM

People save money but it will not grow. The reason found is the savings are not regular. They save some times Rs. 25,000 per month, some months Rs. 5,000 per month and some other months, there will be no savings, they are making some loans. Then, they withdraw their money which is invested in the previous months. It means there is no commitment in savings and investments made by people. So, the present study focus on continuous savings and investments in Systematic Investment Plans to enjoy power of compounding.

3.2 OBJECTIVES OF THE STUDY

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1. To study the basics of power of compounding.
2. To study the mechanism of Systematic Investment Plans.
3. To motivate investors to make use of power of compounding through SIPs.

3.3 TYPE OF THE STUDY

The present study is descriptive one. So, the data has been collected from the library sources such as text books, newspapers, journals, hand bills, and internet sources

4. DATA ANALYSIS

4.1 MEANING OF SYSTEMATIC INVESTMENT PLAN (SIP)

An SIP is a disciplined manner of investing in organized mutual fund where the fixed amount of money at fixed intervals say monthly, quarterly or yearly. It is designed for the purpose of low and medium income people who can take advantage of power of compounding. Lump sum investment can also be done in SIPs.

Table No. 1: Sip Investing

SIP Amount (Rs) (Per Month)	ROI (%)	5 years Value		10 years Value		20 years Value	
		Amount Invested (Rs)	Actual Value (Rs)	Amount Invested (Rs)	Actual Value (Rs)	Amount Invested (Rs)	Actual Value (Rs)
5,000	13	3,00,000	4,24,017	6,00,000	12,33,403	12,00,000	57,27,596
10,000	13	6,00,000	8,48,033	12,00,000	24,66,806	24,00,000	1,14,55,191
15,000	13	9,00,000	12,72,050	18,00,000	37,00,210	36,00,000	1,71,82,787
20,000	13	12,00,000	16,96,066	24,00,000	49,33,613	48,00,000	2,29,10,383

Note: From the above table calculations, it is observed that money has power to grow. It must be utilized by investors. Those who understands it, they earns money and those who does not aware, they lose the power of spending money in future.

4.2 POWER OF SAVING AND ALTERNATIVE THINKING

People should think twice or thrice for wise decision. Here is a beautiful case study of Royal Enfield. In October 2001, Royal Enfield bike cost was around Rs. 60,000 and its manufacturing company Eicher motors share price was around Rs. 2 per share. The share price rose to Rs. 2,600 in October 2021. So, Eicher share price has appreciated 1,300 times in two decades. This indicates that if a person had bought Eicher Motors shares instead of Royal Enfield bullet spending Rs. 60,000 in October 2001, his Rs. 60,000 would have turned to Rs. 7.80 crore.

This says instead of buying bike (liability), if an investor has bought bike company's share, his Rs. 60,000 would have grown up to Rs. 7.80 crore. This Rs. 7.80 crore would have been enough to buy Audi Q2, BMW bike and BMW car. Even after buying these vehicles, the investor would have been left with Rs. 5 crore in his hand. This amount he can invest in any company's shares to make money.

4.3 THE MECHANISM OF SIP

As the name itself suggesting, the time, amount of investment are fixed at the time of subscription. There is an option to the investor, he can opt for auto debit from the bank account every month. The amount goes to mutual fund. Several people are investing to the fund. The mutual fund is pooling the small savings of people and investing in the diversified portfolio of assets such as large cap funds, medium cap funds and small cap funds. The fund managers in mutual fund are highly qualified and experienced. They study the markets and invest money more safely. They avoid high risk as well as low risk. The diversification helps the SIPs to average the risks.

Table No. 2: Step up Systematic Investment Plan Calculator (Time = 10 Years)

Monthly Investment (Rs)	25,000
Annual Step Up (%)	10
Expected Return Rate (%) (p.a.)	12
Time Period (Years)	10
Amount Invested (Rs)	47,81,227
Estimated Returns (Rs)	33,91,019
Total Value (Rs)	**81,72,246**

Table No. 3: Step up Systematic Investment Plan Calculator (Time = 20 Years)

Monthly Investment (Rs)	25,000
Annual Step Up (%)	10
Expected Return Rate (%) (p.a.)	12

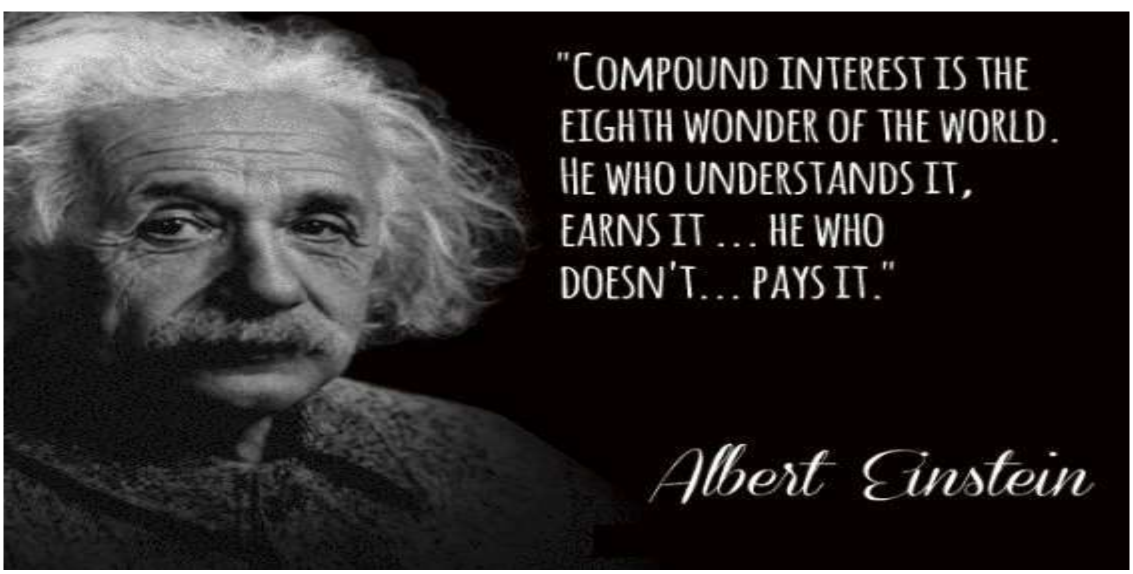
Time Period (Years)	20
Amount Invested (Rs)	1,71,82,500
Estimated Returns (Rs)	2,93,95,958
Total Value (Rs)	**4,65,78,458**

Table No. 4: Step up Systematic Investment Plan Calculator (Time = 20 Years, at 15% Interest)

Monthly Investment (Rs)	25,000
Annual Step Up (%)	10
Expected Return Rate (%) (p.a.)	15
Time Period (Years)	20
Amount Invested (Rs)	1,71,82,500
Estimated Returns (Rs)	6,76,78,115
Total Value (Rs)	**8,48,60,615**

4.4 POWER OF COMPOUNDING AS PER ALBERT EINSTEIN

A famous scientist **Albert Einstein** calls the compound interest as "the eighth wonder of the world. One, who understands it, earns it, he who does not, pays it". He highlights the power of money over its long term which generates huge money by calculating interest on principal and interest.



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The Role of Compounding

Under this case, interest is earned not only on principal but also interest on interest. That is why miracles are happened. When the time period is more and expected interest rate is more than 15%, unbelievable miracles can be enjoyed over long term more than 20 years. We should make use of benefit of compounding interest.

The Power of Time

The longer the money stayed in the mutual fund, the more it grows demonstrating the exponential nature of compounding.

This is Practical

Power of compounding is not social science but it is natural science. So, it is applied in bank fixed deposits, mutual funds like UTI, LIC etc. by increasing the savings, time period and return rate, investor can make money and thereby beat silent killer inflation.

Table No. 5: POWER OF COMPOUNDING - COVER OF WEALTH CREATION

Rate of Return	**8%**	**10%**	**12%**	**15%**
Lump sum amount invested (Rs)	1,00,000	1,00,000	1,00,000	1,00,000
Initial Amount + Simple Interest (Interest is not reinvested) (A)	3,40,000	4,00,000	4,60,000	5,50,000
Initial Amount + Compound Interest (Interest reinvested at same rate) (B)	10,10,000	17,40,000	30,00,000	66,20,000
Difference in wealth (B-A)	6,70,000	13,40,000	25,40,000	60,70,000
Number of times Rs. 1 Lakh has grown in 30 years by Compounding	10.1	17.4	30	66.2

Note:

Investing early is as investing wisely. Compounding earnings can skyrocket small investments.

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Table No. 6: Earlier is Always Better

Delaying can be costly	Mr. Monish	Mr. Sathish	Mr. Ravish
Starts investing at the age of (Yr)	25	35	45
Monthly SIP investing (Rs)	5,000	10,000	10,000
Return p.a. (%)	12	12	12
Investment till the age of (Yr)	55	55	55
Total Investment (Rs. In Lakhs)	18	24	18
Accumulated value at the end (Rs. in Lakhs)	176.5	99.91	34.85
Monthly Installment Required to catch with Monish		17,665	75,965

Note:

From the above calculations in the table, it is cleared that age is the huge capital, this benefit must be availed by the youth..

Table No. 7: ***Classify the following activities into Needs, Wants & Wastes***

Sl. No.	Activity	Need/Want/Waste
1	Household Expenses	
2	Looking Good	
3	Transport	
4	Travel/Holidays plan	
5	Gifts	
6	Education	
7	Entertainment	
8	Fun and Celebrations etc	
9	Excessive tea/coffee	
10	Utility bills	
11	House rent/home loan installments	
12	Groceries	
13	Health	
14	Insurance	
15	Spending on wants beyond your means	

Explanation: As per the above table, all activities can be classified into three categories such as needs, wants and waste expenses. Movement to movement, an individual has to think rationally that is it this expenditure falls under need, want or waste. If it is need, it can be done. If it is want, post pone and if it is waste, avoid it. Out of 15 items, Household Expenses, Transport, Education, Utility bills, House rent/home loan installments, Groceries, Health, Insurance comes under need. So, they can be done. Looking Good, Travel / Holidays plan, Gifts, Entertainment, Fun and Celebrations falls under wants. So, they can be postponed. But Spending on wants beyond our means must be avoided without any fear with lots of boldness.

5. RESULTS AND DISCUSSIONS

1. The Systematic Investment Plan is regarded as friend of middle and low income people.
2. It helps to beat inflation since its average returns are more that 12%.
3. The eighth wonder of the world is power of compounding. So, it is suggested to youth to take financial education and there to make benefit of power of compounding.
4. The Systematic Investment Plans are offered by mutual funds such as LIC, UTI and commercial banks and post offices. So, it is very easy to investors to reach out the branch.
5. Financial education is the essential education to think alternatively. One case study of Eicher Motros demonstrates that buying shares is a wise decision instead of buying liability – bike.
6. The fund manager in the mutual fund will pool the small savings of poor people and invest in the diversified portfolio of investments such as gold, shares, currency, real estate etc.
7. There is also investment in small, medium and large cap companies to average the risks and rewards.
8. The step up calculator is indicating that monthly investment of Rs. 25,000 for 10 years at 12% rate of return will yield Rs. 81,72,246.
9. A famous scientist **Albert Einstein** calls the compound interest as "the eighth wonder of the world. One, who understands it, earns it, he who does not, pays it".
10. The longer the money stayed in the mutual fund, the more it grows demonstrating the exponential nature of compounding.
11. Compounding is not social science but it is natural science. So, it is applied in bank fixed deposits, mutual funds like UTI, LIC etc. by increasing the savings, time period and return rate, investor can make money and thereby beat silent killer inflation.

12. Investing early is as investing wisely. Compounding earnings can skyrocket small investments.
13. Age is the huge capital, this benefit must be availed by the youth.
14. Movement to movement, an individual has to think rationally that is it this expenditure falls under need, want or waste.
15. Needs can be attended immediately, wants can be postponed and waste expenses can be avoided.

CONCLUSION

What cannot be taught in formal schools and colleges can be caught by people if they prefer financial education. Covid – 19, though has many destructions in the world, it has even some constructive ideas. Financial education in youtube videos is one of beautiful example for this. So, people should give first priority for spending on needs, postpose wants and avoid waste expenses. They should make use of power of compounding effect from the age of 20 years or at least 25 years to enjoy financial freedom in future.

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