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http://www.morningstar.co.in/posts/6490/dont-give-up-on-sips.aspx

Don't Give Up on SIPs

Is the market turmoil making you do a double-take on your monthly investments? Staying put is the wise choice.

The stock market has had a tough 2011, with the BSE Sensex losing over 22% year-to-date and your equity funds may have borne the brunt of the fall to varying degrees.

If you invest via systematic investment plans (SIPs), you will do well to continue to allocate that monthly payment towards your mutual fund. Here's why.

Buying stocks cheap

The strategy of investing via SIPs pays off because you invest across the course of a stock-market cycle.

Thus, if your earlier SIP installment went towards buying stocks when they were expensive and the total value of your investment may currently be in the red, now will be the time to average the cost of your purchases and buy equities at a discounted price to help achieve long-term capital appreciation.

Eliminating timing risk

Several investors would have, in hindsight, loved to invest in the stock market when the Sensex was at around 8,000 levels at the bottom of the 2008 crash. But few actually did it.

The truth is: trying to time the stock market is largely a futile exercise and hardly anyone can claim to have done it successfully and repeatedly.

By investing on a regular, monthly basis, SIPs will help you buy stocks right at the bottom of the market, wherever it may be.

Adding discipline to investing

The biggest advantage of SIPs is it inculcates investing discipline by getting you to invest regularly. And nothing tests your discipline like seeing red on your portfolio scorecard.

So even as one finds it difficult to put to use Warren Buffett's famous advice to be greedy when others are fearful, investing in SIPs will help you go against popular herd behavior in which average retail investors rush in when stocks are making new highs and sell out when there is despair on the street.

Caveat: SIPs no substitute for research

Finally, it is worth remembering that investing via SIPs is not the only cornerstone to building long-term wealth and the strategy may not reward you if you are investing in an inherently flawed fund.

SIPs will pay off, providing you are investing in the right mutual fund, having done your research about its ability to put your money to work, and whether its asset allocation, investing approach and risk profile tally with your expectations, risk appetite and investment horizon.