Systematic Investment Plans Vs Market-Timed Investments

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ABSTRACT

This paper examines the performance of Systematic Investment Plan (SIP) and three different market timing strategies – perfect market timers (yearly lowest point investment, half-yearly lowest point investment) and absolute momentum investment. The annualised excess returns is the difference between the returns from market timing strategies and the returns from SIP investment strategy and is calculated on a rolling basis for three different investment horizons – 5, 7 and 10 years. The components of NIFTY50 index are considered for the analysis. SIP is a suitable investment strategy for long-term investments and for the stocks belonging to least and moderately volatile sectors – consumer goods, healthcare and information technology. During shocks, absolute momentum investment is a superior investment strategy for highly volatile sectors - oil & gas and financial services. Fundamental values play an important role in deciding the suitable investment strategy. Over the long-run, stocks with higher ROCE works in favour of SIP investment strategy.

Keywords: SIP, perfect market timers, absolute momentum investment, ROCE