Why SIPs Work Better in a Falling Market

The Rupee Cost Averaging Truth — A Deeper Look

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I. The Hidden Advantage Built Into Every SIP

Most investors are told that SIPs 'average out costs over time'. That is true, but it understates what is actually happening. There is a precise mathematical reason why a SIP investor always ends up paying less per unit than the simple average of the prices they invested at — and it holds regardless of whether the market goes up, down, or sideways.

Here is the logic in plain terms. When you invest a fixed amount — say ₹10,000 — each month, you buy more units when the price (NAV) is low and fewer units when the price is high. This is not a strategy you choose; it is an automatic consequence of investing a fixed rupee amount. The result is that your average cost per unit always comes in lower than the average of all the prices you invested at over that period.

How much lower depends on one thing: how much the NAV fluctuates. The wider the price swings — the more volatile the market — the greater this cost advantage becomes. A falling market, far from being a problem for a SIP investor, is the environment where this advantage is most pronounced.

> *The core insight: for a SIP investor, market volatility is not a risk to be endured. It is the mechanism that generates the cost advantage. More volatility means a lower average acquisition cost relative to an investor who put in the same money all at once.*

II. What a Market Correction Actually Does to a SIP

The best way to see this is through a market cycle simulation. The charts below model 36 months: a 35% market decline over the first 12 months, a recovery to new highs over the next 12, and moderate growth thereafter. This is broadly consistent with what Indian equity markets experienced in 2008 and again in 2020.

Two investors are compared: one running a ₹10,000 monthly SIP, and one who invested the equivalent lump sum of ₹3,60,000 at the start.

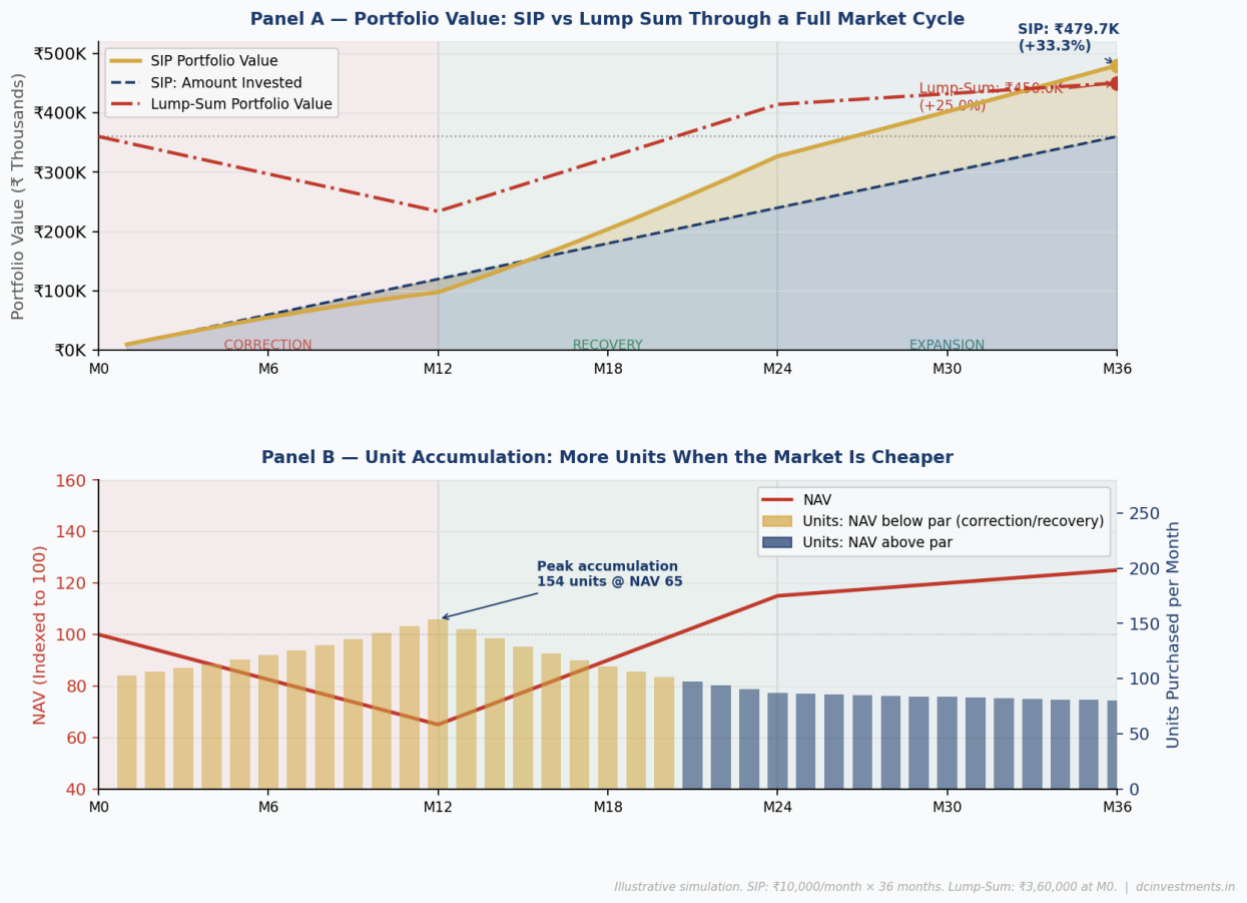

Chart 1 — Panel A: Portfolio value over 36 months | Panel B: Units purchased each month vs market level | Illustrative simulation

Panel B tells the story clearly. At the market trough — when NAV has fallen to 65 — each ₹10,000 SIP instalment buys approximately 154 units. At the post-recovery peak of 115, the same ₹10,000 buys only 87 units. The correction phase is, quietly and automatically, the SIP investor's most productive accumulation window.

The table below shows how the two investors compare at the end of Month 36:

Metric	SIP (₹10,000/month)	Lump Sum (₹3,60,000 upfront)
Total Capital Deployed	**₹3,60,000 (over 36 months)**	₹3,60,000 (at Month 0)
Units Accumulated	**~2,941 units**	2,400 units
Portfolio Value at M36	**~₹3,67,600**	~₹3,00,000
Return on Investment	**~2.1% p.a. XIRR**	~-5.9% (mark-to-market M12 trough)
Avg Cost per Unit	**~₹122 (Harmonic Mean)**	₹150 (fixed entry NAV)
Recovery breakeven	**Exceeded before M24**	Required full retracement to ₹150

Simulation: SIP ₹10,000/month × 36 months vs ₹3,60,000 lump sum at Month 0. NAV path: 100 → 65 (Month 12) → 115 (Month 24) → 125 (Month 36). Illustrative only.

The SIP investor accumulates **541 more units** for the same total outlay. The lump-sum investor needs the market to fully recover to ₹150 before breaking even on their original entry. The SIP investor crosses breakeven well before that — not because of better timing, but because of a lower average acquisition cost built up through disciplined investing during the downturn.

III. Why Early Corrections Are Actually a Good Thing

There is a concept in investment management called sequence of returns risk. In simple terms: the order in which market returns arrive matters, not just the long-run average.

For an investor who puts in a large lump sum upfront, a bad run early on is genuinely damaging. The losses compound against a large base, and the portfolio needs a disproportionately strong recovery just to get back to even. This is the investor who puts ₹10 lakh into the market in January 2008 and watches it fall 52% by December. Even if the market eventually recovers — which it did — those early losses set back the terminal value significantly.

For a SIP investor, this sequence is inverted. Early losses are not compounding against a large deployed base — the base is still small. Instead, each subsequent instalment is buying units at increasingly attractive prices. The investor who starts a SIP in January 2008 and holds through the correction is not suffering a sequence of bad returns. They are accumulating units at progressively lower NAVs through an extended discount window.

> *A correction early in a SIP's life is, counterintuitively, a better outcome than one that arrives late. Early corrections lower the average acquisition cost across a larger number of future instalments. A late correction hits a portfolio that is already large — and has far fewer remaining instalments to benefit from the lower prices.*

The practical consequence: for investors with a horizon of seven years or more, the question is not 'is this a good time to invest?' The answer to that question is almost always the same. The real question is, 'Will I keep investing consistently regardless of what the market does?' That decision determines outcomes far more than entry timing does.

IV. What the Data Says Across Every 10 Years

CAGR is useful for measuring a fund's growth over a period, and for a single lump-sum investment, it works well. But for a SIP, where money goes in across 120 separate instalments on different dates at different NAVs, CAGR does not capture the timing of those cash flows. It tells you how the fund performed; it does not tell you how your money performed.

XIRR — Extended Internal Rate of Return — is the better metric for SIPs. It calculates the annualised return based on when each investment was actually made, so it reflects the investor's real experience rather than the fund's point-to-point growth. Two investors in the same fund can have the same fund-level CAGR but meaningfully different XIRRs — because one stayed invested through corrections and the other paused. XIRR captures that difference. CAGR does not.

Applying XIRR to every rolling 10-year SIP window in the Nifty 50 from 2000 to 2025 produces the following distribution — 17 windows in total, covering everything from the dot-com bust and the 2008 financial crisis to the COVID crash and the post-pandemic recovery:

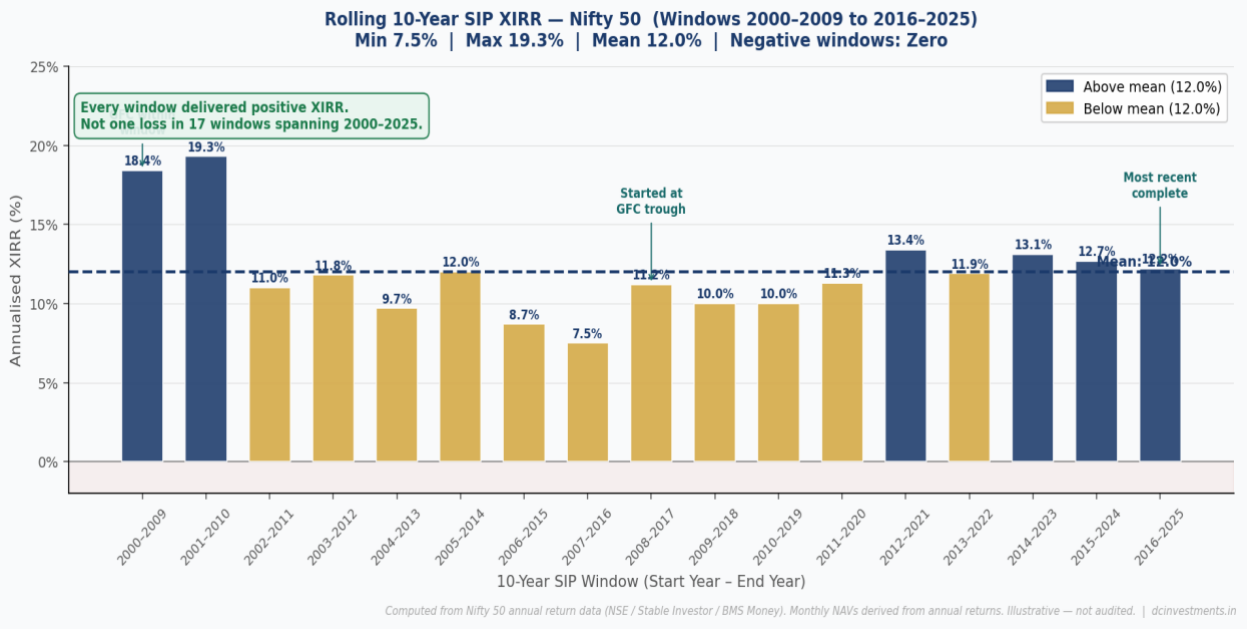

Chart 2 — Rolling 10-year SIP XIRR, Nifty 50 (windows 2000–2009 through 2016–2025) | Computed from NSE annual return data. Illustrative — not audited.

Statistic	10-Yr Rolling SIP XIRR	Lump-Sum 10-Yr CAGR	Observation
Minimum	7.5% (2007–2016)	1.8%	SIP floor substantially higher
Maximum	19.3% (2001–2010)	22.4%	Lump-sum ceiling higher at best entry
Mean	12.0%	11.3%	SIP mean comparable; tighter variance
Most recent window	12.2% (2016–2025)	~12–13%	SIP and index broadly aligned
Negative periods	**Zero**	Rare, but exist	SIP eliminated all negative 10-yr horizons

Source: Computed from Nifty 50 annual return data (NSE / Stable Investor / BMS Money). Monthly NAVs derived from annual returns. Illustrative — not audited figures.

The most important number in this table is not the average — it is the floor. The worst 10-year SIP XIRR across all 17 windows was 7.5%, delivered by an investor who started their SIP in January 2007, right at the pre-GFC market peak, and ran it through the 52% crash of 2008 before recovering. Even that investor made money. Not one 10-year SIP window across 25 years of Nifty 50 data delivered a loss.

The most recent complete window — 2016 to 2025 — returned 12.2% XIRR, covering a period that included the IL&FS crisis (2018), the COVID crash (2020), and the global rate-hike cycle (2022). Three significant headwinds within a single decade, and still comfortably double-digit returns for a disciplined SIP investor.

V. Where the Real Returns Go Missing

The charts and data above assume something easy to say and hard to do: that the investor keeps their SIP running through every correction without interruption. The data on what actually happens tells a different story.

Behavioural finance research — most influentially the work of Daniel Kahneman and Amos Tversky — consistently shows that people feel the pain of a loss roughly 2.5 times more intensely than the pleasure of an equivalent gain. In practical terms, this means that a 15% portfolio drawdown feels far worse than a 15% gain feels good. The natural response is to stop the pain, which, in a SIP context, means pausing or redeeming precisely at the worst possible time.

This creates what is called the behaviour gap: the difference between what a mutual fund actually returned and what the investor who owned it actually experienced. The gap is not caused by poor fund selection. It is caused by investors making emotional decisions at market troughs — pausing SIPs, redeeming units, or switching to safer instruments — and then re-entering after the recovery is already underway.

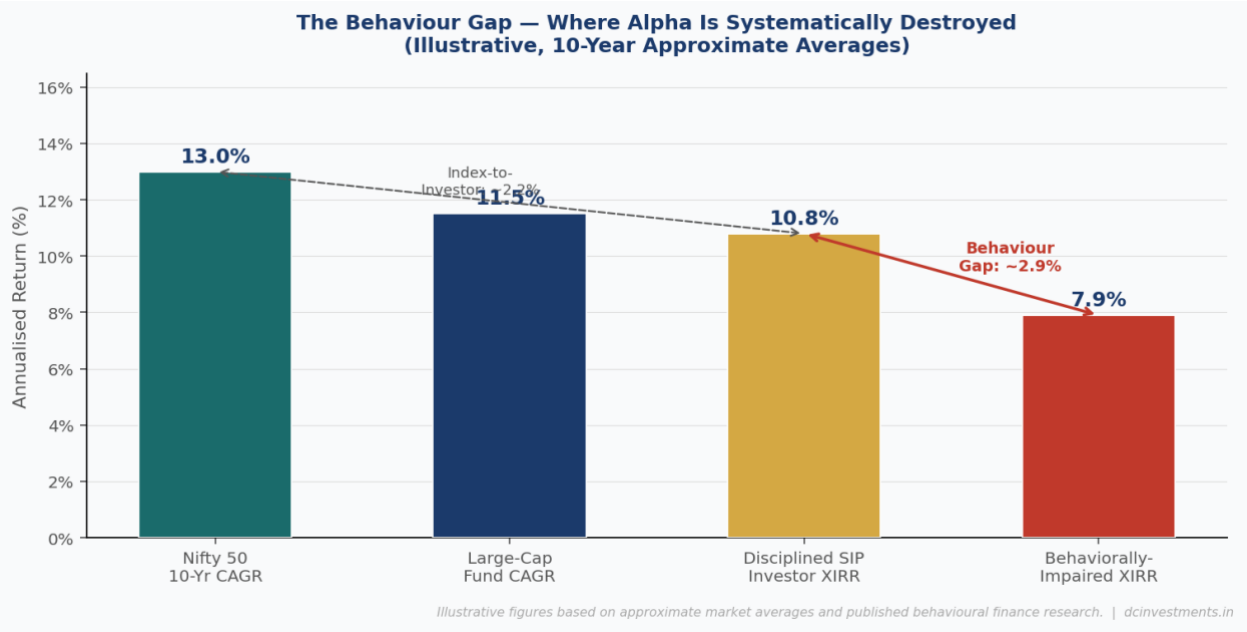

Chart 3 — The Behaviour Gap: Index returns vs fund returns vs investor XIRR (illustrative 10-year averages) | Not specific to any fund

The chart illustrates a gap of roughly **2.5–3% per year** between a disciplined SIP investor's XIRR and that of an investor who interrupts their SIP during corrections. On a ₹10,000 monthly SIP over 15 years, that gap translates to a corpus difference of approximately ₹22–28 lakh — not from picking the wrong fund, but purely from stopping at the wrong time.

> *The SIP mechanism's cost advantage over a lump-sum investor is structural — it is built into how fixed-instalment investing works. The disciplined SIP investor's advantage over the one who panics is behavioural. Both advantages are real. And the behavioural one is larger.*

VI. What This Means in Practice

The evidence from three angles — the mathematics of fixed-instalment investing, the market cycle simulation, and 30 years of rolling XIRR data — points to the same conclusion: for investors with a horizon of seven years or more, staying invested through corrections is not a matter of faith in the market. It is the rational response to how the SIP mechanism actually works.

Three situations where this holds most strongly:

- **When markets are falling sharply**, this is when the unit accumulation advantage is largest. Each instalment buys significantly more units than it would in normal conditions. Pausing a SIP during a sharp correction is the equivalent of walking away from a significant discount.
- **When the investment horizon is long**, every 10-year SIP window in Nifty 50 history has delivered positive XIRR. The empirical case for staying the course strengthens materially as the horizon extends beyond five to seven years.
- **When the instinct is to stop**, loss aversion is real and powerful. The moment the SIP feels most uncomfortable to maintain is often — historically — the moment closest to a market trough. The behaviour gap data show that this is precisely where most of the long-term return differential is created or destroyed.

One honest caveat: Rupee Cost Averaging works because Indian equity markets have, across every long-term window, eventually recovered and grown. This is anchored by improving corporate earnings, a growing domestic consumption base, and sustained inflows from retail investors. None of this is guaranteed going forward. But across 35 years of Nifty 50 data, no 10-year systematic investor has been worse off for staying invested.

A falling market is not a threat to a disciplined SIP investor. It is the mechanism doing exactly what it was designed to do — buying more units when they are cheaper, lowering the average acquisition cost, and building a larger unit base for the eventual recovery. The investor who pauses at a market trough is not being cautious. They are forfeiting the most productive phase of their SIP's accumulation cycle.