Value averaging investment plans- An Overview

Systematic investment plan (SIP) is considered one of the most preferred investment options now in India. Not only retail investors but also HNIs also prefer to put the money into equity market through SIP. It has also proved its worth over the period of time. But now another new concept has come in the market. That is called “value averaging investment plan.”

Usually, the thumb rule to make money from the market is bit simple. Buy low and sell high. But it is difficult for investors to understand what is low and what is high. So investors prefer SIP to invest the money in the market. In an SIP, the investor commits a fixed sum to invest. SIP also generates returns in a long run. But value averaging does something similar not exactly the same thing.

Let me describe it with an example If a person starts an SIP of Rs. 10000 per month then safely we can assume that he has committed Rs. 10000 every month to the market. So the first month his investment is Rs. 10000, second month Rs. 20000, third month Rs. 30000 and so on. But value averaging does something different. For example, the initial investment of Rs. 10000 becomes Rs. 12000 in one month. Then due to value averaging, the next investment will be Rs. 8000 instead of Rs. 10000. And if in the second month, the value becomes Rs. 19000 then in the third month the investment will become Rs. 11000 rather than Rs. 10000.

So value averaging means, the end result will be fixed and amount changes with the change in the market.

Disclaimer: Mutual funds are subject to market risks. Please read all scheme related documents carefully before investing. This article is neither encouraging not discouraging you to invest. Please consult your financial advisor before investing. The author takes no burden for any kind of investments, profits, and losses. Past performance does not guarantee any future returns.

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