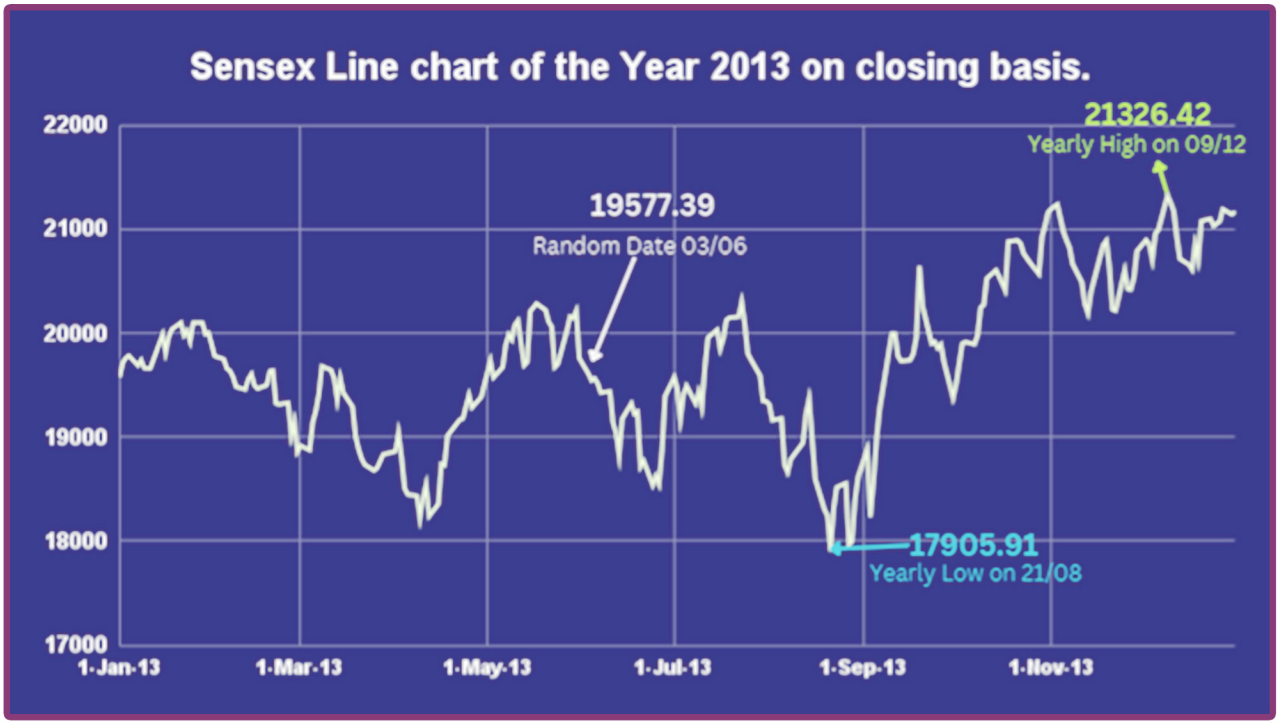


WHY DOES TIMING THE MARKET HAVE AN INSIGNIFICANT IMPACT ON YOUR LUMPSUM INVESTMENT DECISION?

Many times we delay our Lumpsum Investment decision as we feel the equity market is expensive or it may correct more. It is never easy to predict the top or bottom of the market and the temptation to time the market often results in loss of opportunity. The markets can be volatile in the short term and after investment, we often see our investments making good/bad returns. However, in the long term returns average out and eventually investments catch the average return of the market.

A study shows there is not much impact on market timing if you have given sufficient time to your investment. Suppose there are three investments of ₹ 1 lacs in Sensex in the year 2013. One is done at a random date and the other two at year low and high.



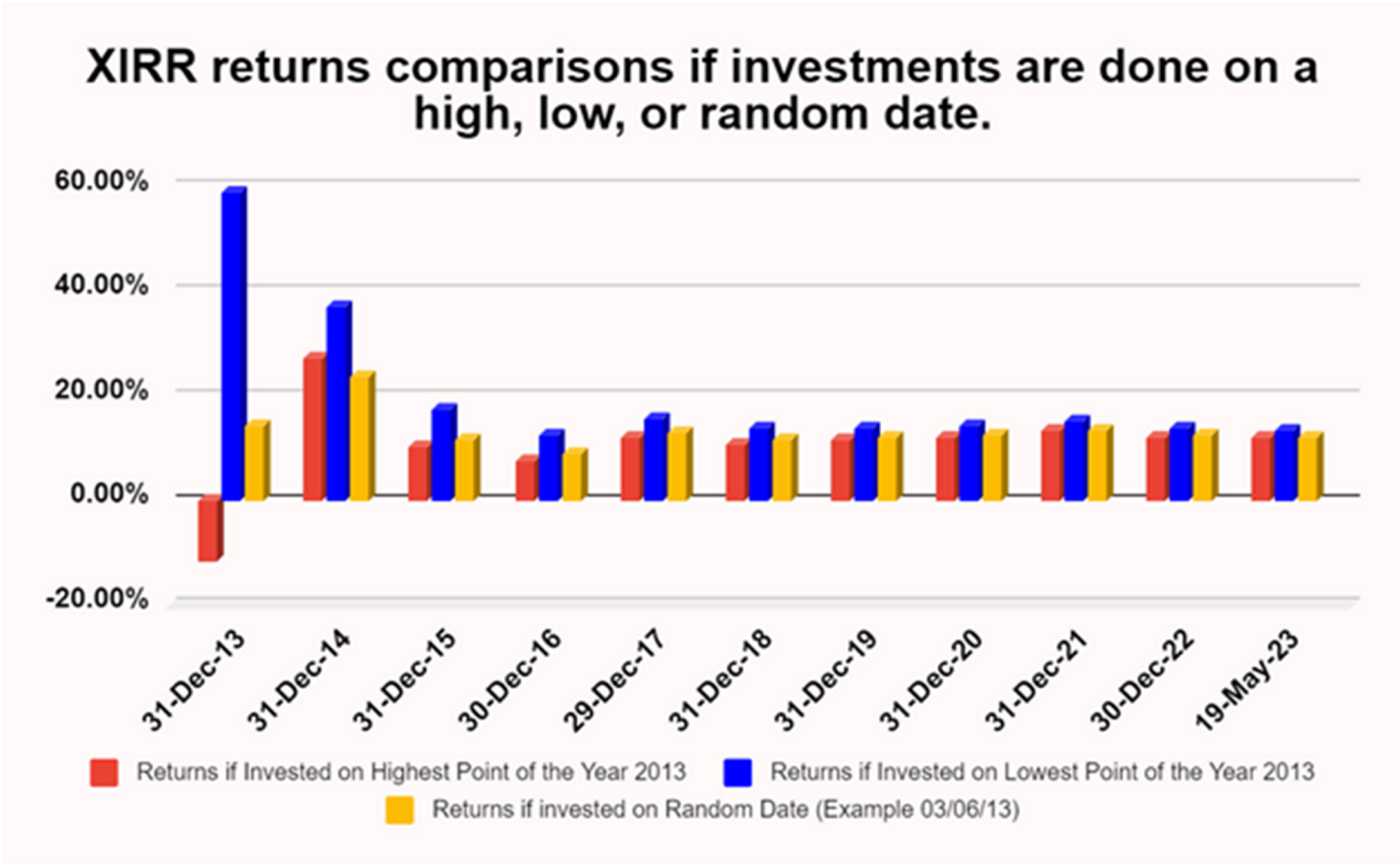
Jyotiraja Sodha
Shubhchintak
AMFI-Registered Mutual Fund Distributor | ARN-18594
jyotiraja_sodha@hotmail.com 9898398189 https://shubhchintak.investwell.app/app/#/login

Let us see the investment valuations and returns generated on the investments at the current date of 2023.

	Investment on the highest closing point of 2013	Investment on the random closing point (3rd June) of 2013	Investment on the lowest closing point of 2013
Investment Amount	₹1,00,000	₹1,00,000	₹1,00,000
Investment Value on 19/05/2023	₹2,89,452	₹ 3,15,311	₹ 3,44,745
XIRR Return	11.91%	12.21%	13.54%

As seen in the table ₹ 1 lakh invested in Sensex at a random date is currently valued at ₹ 3,15,311 generating a 12.21% IRR return against ₹ 3,44,745 invested in the bottom (Best possible timing) and ₹ 2,89,452 if invested in the year high (worst case).

Returns in the short term may be in your favour if you timed the market correctly (which is difficult) but as time passes the return become symmetrical and the significance of market timing fades eventually.



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Let us now understand what is the impact on returns if you delay your investment decision for a year or two while timing the market.

	Investment on the random closing point (3rd June) of 2013	Investment on the random closing point (2nd June) of 2014	Investment on the random closing point (2nd June) of 2015
Investment Amount	₹1,00,000	₹1,00,000	₹1,00,000
Investment Value on 19/05/2023	₹3,15,311	₹2,50,071	₹2,21,659
XIRR Return	12.21%	10.76%	10.50%

Above table shows if you just delay your decision for a year or two, returns are significantly less.



So, we can conclude that if you are thinking of investing in Lumpsum in equity then delaying your investment decisions while timing the market can be more harmful to your return in the coming days. It is very difficult to time the market and even more so to do it consistently. It is better to invest in the market and give time to your investments to grow.

Disclaimer: Mutual Fund investments are subject to market risks. Please read the scheme related documents carefully before investing. Returns are not guaranteed. Past performance is not an indication of future returns. Returns over 1 year period are annualised.

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