The 7-5-3-1 Rule for Successful Equity SIP Investing

Equity SIP investing is simple, yet many of us unintentionally make it more complicated than it needs to be. To address this, we bring you our **7-5-3-1 rule** - a simple yet super effective rule that will help you become a good equity SIP investor and enjoy superior returns over the long term.

What is the 7-5-3-1 rule?

1. HAVE A 7+ YEAR INVESTMENT TIME FRAME

Choosing a **time frame** of **at least 7 years** for your **Equity SIP** helps to **increase the odds of reasonable returns** & **reduce the odds of negative returns.**

- Over a 7-year time frame there were **zero occurrences** of a negative return
- Low occurrence of mediocre returns – only 4% of the time the portfolio earned returns lower than 7%
- Improved odds of better returns – **80% of the time the portfolio earned greater than 10% returns**

Nifty 50 TRI SIP Rolling Returns				
	1Y	3Y	5Y	7Y
Average	18%	16%	16%	15%
Max	141%	54%	48%	40%
Min	-65%	-22%	-4%	0%
% No. of Times				
Returns < 0%	24%	9%	0.4%	0.0%
Returns >=0% but <7%	15%	12%	10%	4%
Returns >=7% but <10%	3%	9%	12%	16%
Returns >=10%	58%	70%	78%	80%
Returns >=12%	55%	59%	65%	66%

Source: MFI, FundsIndia Research. For the period Considered 30-Jun-99 till 30-Jun-24.

Year wise SIP Returns of Nifty 50 TRI

FundsIndia

Year wise SIP Returns of Nifty 50 TRI (2000 to 2023)

Average	17%	16%	16%	17%	16%	16%	15%	15%	14%	14%	14%	13%	13%	13%	14%	13%	14%	14%	14%	14%	14%	15%	15%	14%
Max	141%	67%	54%	49%	48%	44%	40%	35%	25%	24%	22%	18%	18%	18%	18%	16%	16%	16%	15%	16%	16%	15%	15%	15%
Min	-65%	-40%	-22%	-8%	-4%	-2%	0%	2%	3%	4%	5%	6%	6%	6%	7%	8%	9%	10%	11%	11%	13%	14%	14%	14%
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**	**21**	**22**	**23**	**24**
Jan-00	-18%	-14%	-2%	28%	23%	27%	30%	35%	14%	22%	21%	15%	16%	15%	17%	15%	14%	15%	14%	14%	14%	15%	15%	15%
Jan-01	-9%	4%	42%	30%	33%	35%	40%	15%	23%	23%	15%	17%	16%	17%	15%	14%	15%	15%	15%	15%	15%	15%	15%	
Jan-02	13%	67%	39%	39%	40%	44%	15%	24%	23%	15%	17%	16%	17%	15%	14%	15%	14%	14%	14%	15%	15%	15%		
Jan-03	141%	47%	44%	43%	47%	12%	23%	23%	13%	15%	14%	17%	14%	13%	14%	14%	14%	14%	15%	14%	14%			
Jan-04	41%	43%	42%	48%	5%	21%	20%	10%	13%	12%	15%	13%	11%	13%	13%	13%	13%	14%	13%	14%				
Jan-05	58%	46%	53%	-2%	19%	19%	7%	12%	11%	14%	11%	10%	13%	12%	12%	12%	13%	13%	13%					
Jan-06	42%	57%	-15%	16%	17%	4%	10%	9%	13%	10%	9%	12%	11%	11%	12%	13%	12%	13%						
Jan-07	81%	-29%	17%	18%	2%	9%	9%	13%	10%	9%	12%	11%	11%	12%	13%	13%	13%							
Jan-08	-47%	28%	24%	1%	10%	10%	15%	11%	10%	13%	12%	12%	12%	14%	13%	14%								
Jan-09	74%	35%	-1%	11%	10%	16%	11%	10%	13%	12%	12%	13%	14%	13%	14%									
Jan-10	28%	-13%	8%	8%	16%	10%	9%	13%	11%	12%	12%	14%	13%	14%										
Jan-11	-25%	12%	10%	19%	11%	9%	13%	12%	12%	13%	15%	13%	14%											
Jan-12	26%	14%	23%	12%	9%	14%	12%	12%	13%	15%	14%	15%												
Jan-13	15%	27%	10%	7%	14%	12%	12%	13%	15%	14%	15%													
Jan-14	31%	4%	4%	13%	11%	11%	13%	15%	14%	15%														
Jan-15	-7%	1%	14%	11%	12%	14%	16%	14%	15%															
Jan-16	3%	20%	12%	13%	15%	18%	15%	16%																
Jan-17	21%	9%	11%	15%	18%	15%	17%																	
Jan-18	4%	11%	18%	20%	16%	17%																		
Jan-19	14%	25%	25%	17%	19%																			
Jan-20	59%	33%	19%	20%																				
Jan-21	22%	11%	17%																					
Jan-22	10%	21%																						
Jan-23	33%																							

Returns >=10%
7 to <10%
0 to <7%
Less than 0%

How to read the table: Column 1 indicates the starting date of SIP. The Row named 'Year' indicates the time frame on investment – 1Y, 2Y, 3Y etc. For e.g. If you invested on Jan-13, then your 1 year annualized return in 15%, 5 Year annualized return is 14% etc.
Source: MFI, FundsIndia Research.

Did you know?

In the **last 23+ years,** irrespective of when you started your **Equity SIP** (in Nifty 50 TRI), you always **got an opportunity to exit** with a **minimum 11%+ return over a 7-10 year time frame.**

So, in order to make the most of your Equity SIP investments, mentally prepare to stay invested for at least 7 years.

2. DIVERSIFY YOUR EQUITY PORTFOLIO USING 5 FINGER STRATEGY

Different investment styles, market cap segments and geographies do well during different market phases. Hence it becomes important to diversify across them.

Our unique equity portfolio construction strategy **'5 Finger Framework'** has been built keeping this in mind.

5 Finger Framework aims to deliver **consistent outperformance with lower downsides** over longer timeframes. The portfolio is diversified equally across different time tested investment styles - **Quality, Value, Growth at Reasonable Price, Mid / Small cap and Global**.

In the last 10 years, a monthly SIP in the 5 Finger Portfolio gave an annualised return of 19% and outperformed Nifty 50 TRI by 3%.

SIP Performance

Period	1 Y	2 Y	3 Y	5 Y	7 Y	10 Y	Since Jan-10	Since Jan-20
5 Finger Framework	**44%**	**36%**	**26%**	**24%**	**21%**	**19%**	**19%**	**25%**
Nifty 50 TRI	32%	25%	20%	20%	18%	16%	14%	21%
Nifty 500 TRI	43%	34%	25%	25%	20%	18%	16%	26%
Outperformance								
vs Nifty 50 TRI	12%	11%	6%	4%	4%	3%	4%	4%
vs Nifty 500 TRI	1%	2%	0%	0%	1%	2%	3%	-1%

Value of Rs 10,000 Monthly SIP (in Rs lakhs)

Period	1 Y	2 Y	3 Y	5 Y	7 Y	10 Y	Since Jan-10	Since Jan-20
5 Finger Framework	**1.47**	**3.36**	**5.22**	**11.00**	**18.04**	**32.92**	**79.27**	**9.35**
Nifty 50 TRI	1.40	3.06	4.81	9.94	15.74	27.33	54.35	8.61
Nifty 500 TRI	1.47	3.30	5.20	11.03	17.32	30.23	61.62	9.51
Invested Amount	1.2	2.4	3.6	6.0	8.4	12.0	17.4	5.4

Source: FundsIndia Research, MFI. Updated as on 30-Jun-24.

3. PREPARE MENTALLY FOR 3 COMMON PHASES WHERE MOST INVESTORS GIVE UP ON THEIR EQUITY SIP

While Equity markets have historically provided superior returns over longer time frames, the real challenge is to survive the **three temporary but inevitable phases of pain** that happen during the initial years (high likelihood in the first 5 years) of your equity investing journey.

1. **The Disappointment Phase** - The phase where the returns are subpar (7-10%)
2. **The Irritation Phase** - The phase where the returns are much lower than Your expectations (0-7%)
3. **The Panic Phase** - The phase where the returns are negative (below 0%)

These phases happen as a result of equity market volatility. In the last 43+ years of Indian market history shows that - **temporary market falls of 10-20% happen almost every year and 30-60% falls can be expected once every 7-10 years.**

Such phases cannot be avoided. However, these falls are temporary in nature. Historically, the equity markets have always recovered and the Equity SIP returns improved significantly in the next 1-3 years as seen below!

[Check the return journey of a Monthly Equity SIP investment over the last 23+ years across different starting points and time frames.]

Nifty 50 TRI SIP Returns
(When started at different periods since inception)

Period	1Y	1Y 6M	2Y	2Y 6M	3Y	3Y 6M	4Y	4Y 6M	5Y	5Y 6M	6Y	6Y 6M	7Y	7Y 6M	8Y	8Y 6M	9Y	9Y 6M	10Y
Jul-99	11%	-10%	-16%	-12%	-8%	-3%	0%	24%	11%	20%	20%	25%	25%	28%	27%	33%	20%	14%	19%
Jan-00	-18%	-21%	-14%	-8%	-2%	1%	28%	13%	23%	22%	27%	26%	30%	29%	35%	21%	14%	20%	22%
Jul-00	-22%	-12%	-6%	0%	4%	34%	15%	26%	24%	30%	29%	33%	31%	37%	22%	15%	21%	23%	21%
Jan-01	-9%	-3%	4%	7%	42%	18%	30%	27%	33%	32%	35%	34%	40%	23%	15%	22%	23%	22%	23%
Jul-01	3%	10%	11%	53%	22%	35%	31%	37%	34%	38%	36%	42%	24%	15%	22%	24%	22%	23%	20%
Jan-02	13%	15%	67%	24%	39%	33%	39%	36%	40%	37%	44%	24%	15%	22%	24%	22%	23%	20%	15%
Jul-02	27%	95%	27%	44%	36%	43%	39%	42%	39%	46%	24%	14%	22%	24%	22%	23%	20%	14%	15%
Jan-03	141%	24%	47%	36%	44%	39%	43%	39%	47%	23%	12%	21%	23%	21%	23%	19%	13%	14%	15%
Jul-03	1%	41%	31%	42%	36%	42%	38%	47%	20%	8%	19%	22%	19%	21%	17%	11%	13%	14%	13%
Jan-04	41%	29%	43%	36%	42%	37%	48%	18%	5%	17%	21%	18%	20%	16%	10%	12%	13%	12%	12%
Jul-04	39%	53%	39%	46%	39%	52%	16%	2%	16%	20%	18%	20%	15%	9%	11%	13%	11%	12%	14%
Jan-05	58%	37%	46%	38%	53%	12%	-2%	14%	19%	16%	19%	14%	7%	10%	12%	10%	11%	14%	14%
Jul-05	30%	46%	36%	55%	7%	-8%	11%	17%	15%	18%	13%	5%	8%	11%	9%	10%	13%	14%	13%
Jan-06	42%	32%	57%	-1%	-15%	9%	16%	13%	17%	12%	4%	7%	10%	8%	9%	13%	13%	13%	10%
Jul-06	33%	66%	-8%	-21%	8%	16%	13%	17%	11%	3%	7%	9%	8%	9%	13%	13%	13%	10%	10%
Jan-07	81%	-20%	-29%	7%	17%	13%	18%	11%	2%	6%	9%	8%	9%	13%	13%	13%	10%	10%	9%
Jul-07	-39%	-39%	8%	19%	15%	20%	12%	1%	6%	9%	8%	9%	13%	14%	13%	10%	10%	9%	11%
Jan-08	-47%	18%	28%	20%	24%	14%	1%	7%	10%	9%	10%	14%	15%	14%	11%	11%	10%	12%	13%
Jul-08	59%	51%	30%	32%	17%	2%	8%	12%	10%	11%	16%	16%	15%	11%	12%	10%	12%	13%	13%
Jan-09	74%	34%	35%	17%	-1%	7%	11%	9%	10%	16%	16%	15%	11%	11%	10%	12%	13%	12%	12%
Jul-09	15%	25%	8%	-9%	2%	8%	6%	8%	14%	15%	14%	10%	10%	9%	11%	12%	12%	11%	12%
Jan-10	28%	5%	-13%	0%	8%	6%	8%	15%	16%	14%	10%	10%	9%	12%	13%	12%	11%	12%	12%
Jul-10	-1%	-20%	-1%	9%	6%	9%	16%	17%	15%	10%	11%	9%	12%	13%	12%	12%	12%	12%	8%
Jan-11	-25%	1%	12%	8%	10%	19%	19%	16%	11%	11%	9%	12%	13%	13%	12%	13%	12%	8%	13%
Jul-11	7%	18%	10%	12%	22%	21%	18%	12%	12%	9%	13%	14%	13%	12%	13%	12%	8%	13%	14%
Jan-12	26%	12%	14%	25%	23%	19%	12%	12%	9%	13%	14%	13%	12%	13%	12%	8%	13%	14%	15%
Jul-12	9%	13%	28%	25%	19%	11%	11%	8%	13%	14%	13%	12%	13%	12%	7%	13%	14%	15%	12%
Jan-13	15%	34%	27%	19%	10%	11%	7%	13%	14%	13%	12%	13%	12%	7%	13%	15%	15%	12%	14%
Jul-13	48%	31%	20%	9%	10%	6%	12%	14%	13%	11%	13%	12%	6%	13%	15%	15%	12%	14%	14%
Jan-14	31%	16%	4%	7%	4%	11%	13%	12%	11%	12%	11%	6%	13%	15%	15%	12%	14%	14%	15%
Jul-14	6%	-3%	4%	1%	11%	13%	12%	10%	12%	11%	5%	13%	15%	16%	12%	14%	14%	15%	
Jan-15	-7%	5%	1%	12%	14%	13%	11%	12%	12%	5%	14%	15%	16%	12%	14%	14%	15%		
Jul-15	11%	2%	15%	17%	14%	12%	13%	12%	5%	14%	16%	17%	12%	14%	14%	16%			
Jan-16	3%	19%	20%	15%	12%	14%	13%	4%	15%	17%	18%	13%	15%	15%	16%				
Jul-16	19%	19%	14%	11%	13%	12%	3%	15%	17%	18%	12%	15%	15%	16%					
Jan-17	21%	14%	9%	13%	11%	1%	15%	18%	18%	12%	15%	15%	17%						
Jul-17	10%	6%	12%	11%	-1%	16%	18%	19%	12%	15%	15%	17%							
Jan-18	4%	12%	11%	-2%	18%	20%	20%	12%	16%	15%	17%								
Jul-18	13%	12%	-4%	20%	22%	22%	13%	16%	16%	18%									
Jan-19	14%	-6%	25%	26%	25%	13%	17%	17%	19%										
Jul-19	-7%	35%	32%	28%	14%	18%	17%	20%											
Jan-20	59%	42%	33%	14%	19%	18%	20%												
Jul-20	45%	32%	9%	16%	16%	19%													
Jan-21	22%	-2%	11%	12%	17%														
Jul-21	-12%	9%	12%	18%															
Jan-22	10%	14%	21%																
Jul-22	18%	25%																	
Jan-23	33%																		

Panic Zone:	**Returns < 0%**
Irritation Zone:	**Returns >=0% but <7%**
Disappointment Zone:	**Returns >=7% but <10%**
Positive Zone:	**Returns >=10%**

Source: FundsIndia Research, MFI;SIP installment is assumed to be made on the 1st of every month;

4. INCREASE YOUR SIP AMOUNT AFTER EVERY 1 YEAR!

Even a small increase in your Equity SIP amount every year can make a huge difference to your final portfolio value over the long run.

Over 20 years, the value of a portfolio where the SIP amount is increased 10% every year is almost twice that of a portfolio where the same amount is invested every year!

Here is a table which shows the difference in final portfolio values across different time frames for different % of annual increase in SIP amount.

Portfolio value with increase in SIP every year @12% CAGR - Return Expectation						
Increase in SIP	**No of Years**					
	5	**10**	**15**	**20**	**25**	**30**
Monthly SIP of Rs 5,000 (no annual increase)	Rs 4 Lakhs	Rs 12 Lakhs	Rs 25 Lakhs	Rs 49 Lakhs	Rs 94 Lakhs	Rs 1.8 Crores
Monthly SIP of Rs 5,000 (increased 5% annually)	Rs 4 Lakhs	Rs 14 Lakhs	Rs 32 Lakhs	Rs 68 Lakhs	Rs 1.4 Crores	Rs 2.6 Crores
Monthly SIP of Rs 5,000 (increased 10% annually)	Rs 5 Lakhs	Rs 17 Lakhs	Rs 43 Lakhs	Rs 98 Lakhs	Rs 2.1 Crores	Rs 4.4 Crores
Monthly SIP of Rs 5,000 (increased 15% annually)	Rs 5 Lakhs	Rs 20 Lakhs	Rs 59 Lakhs	Rs 1.5 Crores	Rs 3.6 Crores	Rs 8.3 Crores

Source: FundsIndia Research

Note: The percentage increase is on the previous year's SIP amount i.e. Rs. 5,000 SIP increased 10% annually will invest Rs 5,000 every month in the first year, Rs. 5,500 every month in the second year, Rs. 6,050 every month in the third year and so on.

To read the detailed blog: *Link*

SUMMING IT UP

HOW TO BECOME A SUCCESSFUL EQUITY SIP INVESTOR - THE 7-5-3-1 RULE!

- **7+** year time frame…
- **5** Finger Strategy for building Equity SIP Portfolio…
- Don't stop your Equity SIP in the **3** Tough Phases (Disappointment, Irritation and Panic Phase) where most SIP Investors give up…
- Increase SIP amount every **1** year

...and you're all set for your SIP wealth creation journey :)

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