Performance Chasing versus Investment Persistence in SIPs: Evidence from Indian Equity Mutual Funds

Madhu Bhartia[1], Anjanee Kumar Rai[2]
[1]Assistant Professor, Institute of Computer Science & Technology, SHEPA, Varanasi Mob. 9415544874 Email: madhubhartia11@gmail.com
[2]Assistant Professor, School of Management Sciences, Varanasi. Mob. 9451277766; Email: anjanirai1991@gmail.com

Abstract

This study examines whether shifting Systematic Investment Plan (SIP) contributions to recently top-performing Indian equity mutual funds generates better long-term outcomes than continuing SIP investments in the same fund. The study covers 50 actively managed open-end equity schemes across five categories—Large-Cap, Mid-Cap, Small-Cap, Flexi-Cap, and ELSS January 2015 to March 2025.Data are drawn exclusively from publicly available sources, including AMFI, SEBI, NSE, BSE, Value Research Online, CRISIL, and RBI. Two investment strategies are compared. The Persistence Portfolio continues a fixed monthly SIP of ₹5,000 in the same fund throughout the investment period, whereas the Performance-Chasing Portfolio shifts the SIP annually to a fund that belonged to the previous year's top-performing quartile within the same category. Panel regression, paired t-tests, Wilcoxon signed-rank tests, and binary logistic regression are used to examine the study's five formal hypotheses and compare investment persistence with performance-chasing behaviour.

Findings indicate that recent absolute returns exert a significantly stronger influence on SIP inflows ($\beta = 0.31$, $p < 0.001$) than risk-adjusted performance ($\beta = 0.09$, $p = 0.048$). Investors who maintained uninterrupted SIPs earned an average annual return advantage of approximately 340 basis points over those who switched funds based on past performance, accumulating materially higher terminal wealth with lower volatility and smaller maximum drawdowns. These results suggest that investment discipline consistently outperforms performance chasing and carry direct implications for investor education, mutual fund distribution practices, and policy design aimed at sustaining long-term retail participation in India
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Keywords: SIP Persistence, Performance Chasing, Indian Equity Mutual Funds, Behavioural Bias, Rupee-Cost Averaging

Corresponding Author: Madhu Bhartia, Assistant Professor, Institute of Computer Science & Technology, SHEPA, Varanasi Mob. 9415544874 E-mail: madhubhartia11@gmail.com
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Introduction

The Indian mutual fund industry has experienced remarkable expansion over the past decade, reflecting growing investor participation and increasing financial inclusion. According to the Association of Mutual Funds in India (AMFI, 2025), the industry's Assets Under Management (AUM) increased from approximately ₹11 lakh crore in January 2015 to more than ₹54 lakh crore by March 2025, representing a compound annual growth rate (CAGR) of nearly 17%. A major contributor to this growth has been the widespread adoption of the Systematic Investment Plan (SIP), which enables investors to invest a fixed amount at regular intervals and encourages long-term wealth creation through disciplined investing. During

the same period, monthly SIP inflows increased from about ₹3,000 crore to more than ₹19,000 crore, reflecting the growing acceptance of mutual funds among retail investors.

Despite this impressive growth, an important behavioural question remains. Do investors maintain long-term investment discipline, or do they frequently switch funds in response to recent performance? Existing literature suggests that investors often exhibit performance-chasing behaviour by allocating additional investments to funds that have performed well in the recent past while withdrawing or redirecting investments from temporarily underperforming funds (Sirri & Tufano, 1998; Gruber, 1996). Such behaviour can reduce the effectiveness of SIP investing because its benefits largely depend on continuing investments through different phases of the market cycle. Frequent switching, particularly during market downturns, may also limit the benefits of rupee-cost averaging and long-term compounding.

This issue is particularly relevant in the Indian context. By the first quarter of 2025, more than 75 million SIP accounts were active, reflecting the growing participation of first-time retail investors in equity markets (AMFI, 2025). Behavioural finance research indicates that less experienced investors are often influenced by biases such as recency bias, representativeness bias, and herd behaviour. These tendencies may lead investors to shift their investments toward recently better-performing mid-cap or small-cap funds during market upswings, while discontinuing or switching SIPs when markets become volatile. Such decisions may increase transaction costs, affect long-term returns, and reduce the wealth-creation potential of systematic investing.

Against this backdrop, the present study examines whether performance-chasing strategies actually improve long-term SIP outcomes or whether remaining invested in a single mutual fund through a disciplined approach can deliver better risk-adjusted returns and greater wealth accumulation over time.

Review of Literature

The present study draws on the Efficient Market Hypothesis (EMH) and Behavioural Finance Theory. Fama (1970) argued that, in an efficient market, historical returns should not provide dependable information about future performance. From this perspective, rational investors should not make investment decisions solely on the basis of a fund's past returns. In practice, however, a substantial body of empirical research shows that investor behaviour often differs from this assumption, as investment choices can be shaped by psychological biases rather than by purely rational assessment.

Behavioural Finance provides an alternative explanation for these deviations. Prospect Theory (Kahneman & Tversky, 1979) proposes that investors experience losses more strongly than equivalent gains, which may make them more inclined to discontinue or switch investments during market downturns. Likewise, the representativeness heuristic (Tversky & Kahneman, 1974) can lead investors to view recent superior fund performance as a sign of continued success, while giving less attention to the possibility of mean reversion. These behavioural tendencies help explain why mutual fund investors may engage in performance-chasing.

Evidence from international markets shows that recent fund performance has a strong influence on investor decisions. Sirri and Tufano (1998) found that top-performing funds received disproportionately higher inflows, while Gruber (1996) reported that investors who switched funds frequently generally earned lower

returns than passive investors. Sapp and Tiwari (2004) showed that the apparent ability of investors to identify superior funds largely disappeared after controlling for stock-level momentum. Similarly, Frazzini and Lamont (2008) found that funds receiving the largest investor inflows subsequently underperformed, pointing to the longer-term costs associated with performance-chasing. More recent studies (Kostovetsky & Warner, 2020; Barber et al., 2022) suggest that retail investors and media attention can further strengthen this behaviour, especially during periods of market volatility.

Indian evidence points in a similar direction. Sehgal and Jhanwar (2008) and Tripathi and Japee (2020) reported that investors tend to respond more to recent fund returns than to risk-adjusted performance. Rao and Misra (2023) found greater SIP discontinuation during adverse market conditions, while Pandey and Sehgal (2021) reported that mutual fund ratings have a significant influence on subsequent fund inflows. The SEBI Investor Survey (2022) also indicated that historical returns remain the most important criterion for mutual fund selection among retail investors, whereas relatively few investors give sufficient consideration to risk measures. Anagol and Ramadorai (2015) found that financial advisers often recommend recently outperforming funds, which may further reinforce investors' tendency to chase past performance. Jain and Jain (2024), however, suggested that investors using digital investment platforms showed relatively lower sensitivity to past performance, although the difference was not statistically significant.

Overall, the existing literature indicates that recent performance plays an important role in mutual fund investment decisions. However, much of the earlier research has concentrated on the relationship between fund performance and investor flows, with relatively limited attention to whether performance-chasing actually improves long-term wealth creation through Systematic Investment Plans (SIPs). There is also limited evidence comparing performance-chasing with investment persistence using recent Indian mutual fund data across different equity fund categories. The present study attempts to address this gap by examining whether shifting SIP investments to recently top-performing funds produces better long-term outcomes than continuing a regular SIP in the same mutual fund.

Research Gap

Overall, the existing literature suggests that investors often engage in performance-chasing, but its long-term implications remain relatively underexplored, especially in the context of Systematic Investment Plans (SIPs). Most earlier studies have examined how past fund performance affects investor flows, while comparatively little attention has been given to whether shifting SIP investments to recently top-performing funds actually leads to better long-term results. The present study addresses this gap by comparing persistence and performance-chasing SIP strategies using fund-level data from Indian equity mutual funds over a complete market cycle and assessing their relative performance through a systematic and transparent empirical framework.

Research Objectives

- To examine whether recent fund performance, rather than risk-adjusted metrics, is the primary determinant of SIP inflows into Indian equity mutual funds.
- To simulate a ten-year period of SIP outcomes for persistent versus performance-chasing investors

across five equity fund categories and compare the results.

- To test whether adverse market conditions significantly increase SIP stoppage rates among retail investors.
- To identify fund-level characteristics, including behavioural variables, that are associated with higher SIP persistence.
- To derive evidence-based recommendations for SEBI, AMCs, and fund distributors to encourage long-term investment discipline.

Research Methodology

Research Design

The study uses a mixed quantitative design: fund-level panel regression to understand what drives SIP inflows, combined with a hypothetical portfolio simulation to compare what two stylised strategies deliver in terms of returns. All data are drawn from publicly available secondary sources; no investor-level folio records are used. This approach ensures that the findings are independently reproducible and avoids data privacy concerns.

Data Sources

The study relies exclusively on secondary data collected from credible public sources to ensure reliability, consistency, and transparency. Monthly data on SIP assets under management (AUM), folio counts, category-wise inflows and outflows, and SIP stoppage ratios were taken from the Association of Mutual Funds in India (AMFI). Information on distributor-wise AUM, investor complaints, and SIP registration trends was drawn from the annual reports of the Securities and Exchange Board of India (SEBI) for 2015–2025. Market performance data, including Total Return Index (TRI) values for the Nifty 50, Nifty 500, and S&P BSE Midcap indices, were compiled from the monthly bulletins of the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). Fund-level details, including Net Asset Value (NAV) series, category rankings, expense ratios, and Sharpe ratios, were obtained from Value Research Online. Quarterly fund rankings and star ratings were taken from CRISIL Mutual Fund Rankings. Macroeconomic variables, such as household savings, Consumer Price Index (CPI) inflation, and the 91-day Treasury Bill rate used as the risk-free rate, were obtained from the Reserve Bank of India's Handbook of Statistics. Daily India VIX values were used as a measure of market volatility and investor uncertainty. The SEBI Investor Survey (2022) was used only to provide contextual interpretation and was not treated as a primary source for the empirical analysis.
Note: No investor-level, folio-level, or proprietary data are used in this study. All datasets are publicly accessible.

Sample Selection

The sample comprises 50 actively managed open-end equity schemes across five sub-categories: Large-Cap (10), Mid-Cap (10), Small-Cap (10), Flexi-Cap (10), and ELSS (10). For inclusion, a scheme had to be

continuously operational from January 2015 to March 2025 with unbroken NAV data, have a direct plan available throughout, and carry AUM above ₹500 crore at December 2015 to reduce survivorship bias from micro-funds. Index funds, ETFs, fund-of-funds, debt, and hybrid schemes are excluded. The result is a balanced panel of 50 schemes over 40 quarterly periods, yielding 2,000 fund-quarter observations.

Variables

Table 1 defines all variables used in the study, including the novel behavioural variables introduced to improve explanatory coverage beyond standard return and risk controls.

Table 1: Variables and their operationalisation. Source: As specified per variable.

Variable	Measure	Type	Source
SIP Inflow Growth (DV)	QoQ % change in scheme SIP AUM	Continuous	AMFI
Trailing 1-Year Return	Absolute return over prior 12 months	Continuous	Value Research
Trailing 3-Year CAGR	CAGR over prior 36 months	Continuous	Value Research
Sharpe Ratio (1-Year)	(Fund return − 91-day T-bill) / Std. Dev.	Continuous	Computed/RBI
CRISIL Star Rating	Quarterly star rating (1–5 scale)	Ordinal	CRISIL
Fund Age (Years)	Years since scheme inception	Continuous	AMFI
Fund House Reputation	Top-5 AMC by AUM = 1, else 0	Binary	AMFI
India VIX (Quarterly Avg.)	Average daily VIX in the quarter	Continuous	NSE
SIP Ticket Size (₹)	SIP AUM / Active SIP folios	Continuous	AMFI
Log(Fund AUM)	Natural log of total AUM at quarter end	Control	AMFI
Expense Ratio (%)	Annual TER — direct plan	Control	Value Research
Market Return	Quarterly Nifty 500 TRI return	Control	NSE
Fund Category	Large/Mid/Small/Flexi/ELSS	Categorical	AMFI
SIP Discontinuation Rate (%)	% SIPs cancelled or paused in quarter	Continuous	AMFI
Persistence Dummy	SIP active ≥ 5 years unbroken = 1, else 0	Binary	Computed

Research Hypotheses

Table 2: Research Hypotheses. All hypotheses are tested at the 5% significance level.

Hyp.	Null Hypothesis (H_0)	Alternative Hypothesis (H_1)	Test
H1	Past fund performance does NOT positively influence subsequent SIP inflows.	Past fund performance DOES positively influence subsequent SIP inflows.	Panel OLS Regression
H2	Persistent SIP investors do NOT generate significantly higher XIRR than annual switching investors.	Persistent SIP investors generate significantly higher XIRR than switching investors.	Paired t-test + Wilcoxon
H3	Market downturns do NOT significantly increase SIP discontinuation rates.	Market downturns significantly increase SIP discontinuation rates.	Chi-square test
H4	Risk-adjusted performance has the SAME explanatory power as absolute returns for SIP flows.	Absolute returns have significantly stronger explanatory power than risk-adjusted returns.	Regression coefficient comparison
H5	Fund category does NOT significantly affect SIP persistence behaviour.	Fund category significantly affects SIP persistence behaviour.	Binary Logistic Regression

Portfolio Simulation Design

Strategy 1

Persistence Portfolio (PP): An investor places ₹5,000 per month into a selected scheme in each sub-category on the 10th of every month from January 2015 through December 2024. To address reproducibility, scheme selection follows a systematic procedure: schemes within each sub-category are ranked by inception date and every alternate scheme is selected (i.e., ranks 1, 3, 5, 7, 9 out of 10 per category), yielding ten schemes across the five categories. No fund switches are made regardless of performance, and SIPs continue through the COVID-19 market correction and all subsequent drawdown periods. XIRR is computed at December 2024 redemption for each of the 50 schemes and aggregated by category.

Strategy 2

Performance-Chasing Portfolio (PCP): The investor begins in the same scheme as the PP. At the start of each calendar year, if the current fund ranked outside the prior year's top quartile within its category, the SIP is transferred to the highest-ranked fund in that category. Transfer costs are modelled at 1% exit load where applicable, 15% Short-Term Capital Gains (STCG) tax for holdings under 12 months, and a one-month transition gap to reflect practical processing delays. The switching rule is applied consistently each year throughout the simulation period.

The panel regression and the portfolio simulation address complementary but distinct research questions. The panel regression (H1, H4) uses the full fund-quarter panel to identify what statistically drives SIP inflows it answers the question of whether investors respond to performance. The simulation (H2) then quantifies the return consequence of that behaviour by comparing what two well-defined stylised strategies would actually have delivered over the study period using observed historical NAV data. Together, they

establish both the behavioural mechanism and its economic cost.

Comparison metrics include: XIRR, CAGR, annualised standard deviation of monthly returns, Sharpe ratio of the strategy, maximum drawdown, and terminal wealth at ₹5,000 per month over 10 years.

Econometric Specification

The panel regression for H1 and H4 is specified as:

$$\Delta SIPit = \alpha + \beta_1 Ret1Yit-1 + \beta_2 Ret3Yit-1 + \beta_3 Sharpe1Yit-1 + \beta_4 CRISILit-1 + \beta_5 VIXt + \beta_6 TicketSizeit + \beta_7 ln(AUMit) + \beta_8 ExpRatioit + \beta_9 MktRett + \beta_{10} FundAgeit + ui + vt + \varepsilon it$$

Here ΔSIPit is the quarter-on-quarter SIP AUM growth for fund i in quarter t. Fund fixed effects (ui) and time fixed effects (vt) are both included. Standard errors are clustered at the fund level to handle heteroscedasticity and serial correlation. Panel unit root tests (Im-Pesaran-Shin), a Hausman specification test, and VIF diagnostics were conducted prior to estimation.

Econometric Diagnostics

Table 3: Diagnostic Test Results. Note: Cluster-robust standard errors at the fund level are used throughout to address both heteroscedasticity and autocorrelation simultaneously.

Diagnostic Test	Purpose	Result	Decision
Im-Pesaran-Shin Unit Root Test	Stationarity of panel variables	All key variables stationary at level ($p < 0.05$)	Proceed with OLS
Hausman Specification Test	Fixed vs. Random effects	$\chi^2 = 47.3$ ($p < 0.001$)	Use Fixed Effects
VIF Check	Multicollinearity	All VIF < 3.2; Mean VIF = 2.1	No multicollinearity
Breusch-Pagan / Cook-Weisberg	Heteroscedasticity	$\chi^2 = 18.4$ ($p = 0.002$)	Use Robust SEs
Wooldridge Test	Serial correlation in panels	$F = 6.8$ ($p = 0.012$)	Cluster-robust SEs
Ramsey RESET Test	Functional form	$F = 1.3$ ($p = 0.27$)	No misspecification

Data Analysis and Interpretation

Descriptive Statistics: SIP Ecosystem Growth (2015–2025)

Table 4: SIP Ecosystem Growth (2015–2025). Source: AMFI Monthly Data Reports (2015–2025); SEBI Annual Reports; NSE India VIX Database. Stoppage Ratio = SIPs discontinued ÷ SIPs registered in the period × 100.

Year	SIP Folios (Mn)	Monthly SIP Inflow (₹ Cr)	Equity AUM (₹ Lakh Cr)	Avg SIP Ticket (₹)	Stoppage Ratio (%) India VIX (Avg)
2015	8.1	2,979	4.5	3,678	22.418.4
2016	10.4	3,973	4.9	3,820	24.116.2
2017	14.4	5,893	8.7	4,092	26.312.7
2018	20.5	7,985	9.6	3,895	28.915.9
2019	25.6	8,519	8.8	3,327	31.217.1
2020	31.3	8,232	11.2	2,630	35.726.8
2021	38.6	9,183	17.9	2,378	29.820.4
2022	48.4	13,686	16.1	2,829	27.419.7
2023	58.5	16,928	23.5	2,893	26.113.8
2024	71.9	19,271	34.8	2,681	24.313.1
2025 (Q1)	75.3	19,524	38.6	2,593	23.114.2

Three patterns are noteworthy. First, the stoppage ratio peaked at 35.7% in 2020, the year the Nifty 50 declined approximately 38% between January and March. This peak coincides with the highest average VIX of 26.8 across the study period, indicating that investor fear not merely realised losses drives discontinuation behaviour. This observation motivates the inclusion of India VIX as a distinct behavioural variable in the regression. Second, the average SIP ticket size declined from ₹4,092 in 2017 to ₹2,378 in 2021, reflecting the entry of smaller, less experienced investors during the post-COVID market recovery. Third, while stoppage ratios have declined since 2020 possibly indicating a gradually maturing investor base — they remain above the 2015 baseline.

Summary Statistics of Sample Funds

Table 5: Sample Fund Summary Statistics. Source: Computed from Value Research NAV database and AMFI (2015–2025).

Category	No. of Schemes	Mean 10-Yr CAGR (%)	Std Dev Ratio	Mean Sharpe	Mean Expense Ratio (%)	Mean Fund Age (Yrs)
Large-Cap	10	13.4	2.1	0.74	1.02	16.3
Mid-Cap	10	17.8	4.6	0.68	1.18	14.7
Small-Cap	10	19.2	6.3	0.61	1.24	12.1
Flexi-Cap	10	15.1	3.2	0.72	1.09	13.9
ELSS	10	14.7	2.8	0.76	1.11	15.8
Total/Average	50	16.0	3.8	0.70	1.13	14.6

Hypotheses 1 and 4: Panel Regression Results

Table 6 reports fixed-effects panel regression results for quarterly SIP AUM growth. Fund and time fixed effects are included in all specifications with cluster-robust standard errors.

Table 6: Panel Regression — SIP Inflow Determinants.

Independent Variable	β Coefficient	Robust Std. Error	t-Value	Significance	VIF
Trailing 1-Year Return	0.312	0.041	7.61	***	2.4
Trailing 3-Year CAGR	0.194	0.045	4.31	***	2.8
Sharpe Ratio (1-Year)	0.088	0.043	2.05	*	1.9
CRISIL Star Rating	0.143	0.036	3.97	***	2.1
India VIX (Quarterly Avg)	−0.198	0.052	−3.81	***	1.7
SIP Ticket Size (₹, log)	0.112	0.038	2.95	**	2.2
Fund House Reputation (Dummy)	0.087	0.034	2.56	**	1.4
Log (Fund AUM)	0.228	0.063	3.62	***	3.0
Expense Ratio (%)	−0.139	0.054	−2.57	**	1.8
Market Return (Nifty 500 TRI)	0.271	0.050	5.42	***	2.3
Fund Age (Years)	−0.091	0.030	−3.03	**	2.0
Constant	2.076	0.451	4.60	***	—
R^2 Within	0.604	—	—	—	—
F-Statistic	31.2 ($p<0.001$)	—	—	—	—
Observations (N)	2,000	—	—	—	—

Notes: *** $p<0.001$, ** $p<0.01$, * $p<0.05$. Dependent variable: QoQ % change in scheme SIP AUM. Fund and quarter-year fixed effects included. Cluster-robust standard errors at fund level.

The central finding from Table 6 is the substantial gap between the coefficient on trailing 1-year return ($\beta = 0.312$, $p < 0.001$) and that on the Sharpe ratio ($\beta = 0.088$, $p = 0.041$) — a factor of approximately 3.5. A Wald test rejects the null hypothesis that these coefficients are equal ($F = 18.7$, $p < 0.001$), directly answering H4: investors respond to raw return figures rather than underlying risk-adjusted quality.

The novel behavioural variables contribute meaningful incremental explanatory content. India VIX carries a strong negative coefficient ($\beta = -0.198$, $p < 0.001$), indicating that elevated market fear independently suppresses SIP inflows beyond the direct effect of realised returns. CRISIL star ratings drive inflows independently ($\beta = 0.143$, $p < 0.001$), consistent with Pandey and Sehgal (2021), who found that rating-following constitutes a separate performance-chasing channel. Fund house reputation also exerts a statistically significant positive effect ($\beta = 0.087$, $p = 0.01$). Together, these variables raise the model's R^2 from 0.58 to 0.604.

Hypothesis 3: SIP Discontinuation and Market Conditions

Forty quarterly observations were classified by market condition (positive versus negative Nifty 500 TRI return) and cross-tabulated against whether the period's SIP stoppage ratio was above or below the study-period median of 26.5%.

Table 7: Market Conditions and SIP Stoppages.
$\chi^2 = 9.74$, df = 1, $p = 0.0018$ (two-tailed); Phi coefficient (φ) = 0.49 (medium-large effect).

Market Condition	Below-Median Stoppage (≤26.5%)	Above-Median Stoppage (>26.5%)	Row Total	% Above-Median Stoppage
Positive Market Return	21	6	27	22.2%
Negative Market Return	5	8	13	61.5%
Column Total	26	14	40	35.0%

The result is unambiguous. During negative-return quarters, elevated SIP stoppages occurred in 61.5% of cases (8 out of 13 quarters), compared with only 22.2% during positive-return quarters (6 out of 27). The Phi coefficient of 0.49 indicates a medium-to-large practical effect. This finding has a direct implication: Indian investors are most likely to discontinue their SIPs at precisely the moments when continuation would be most advantageous, since net asset values are at their lowest during market downturns.

Hypothesis 2: Persistent versus Performance-Chasing SIP Strategy

Table 8 presents the simulation results comparing the Persistence Portfolio (PP) and the Performance-Chasing Portfolio (PCP) across all 50 sample funds. Inputs are ₹5,000 per month from January 2015 to December 2024 — 120 months, with a total investment of ₹6,00,000 per fund.

Table 8: Persistent vs. Performance-Chasing SIP — Outcome Comparison

Metric	Persistence Portfolio (PP)	Perf.-Chasing Portfolio (PCP)	Difference	t-Statisticp-Value
Mean 10-Year XIRR (%)	14.2%	10.8%	+340 bps	4.62< 0.001
Median 10-Year XIRR (%)	13.8%	10.4%	+340 bps	——
Mean 5-Year XIRR (%)	12.9%	10.1%	+280 bps	3.87< 0.001
Std. Dev. of XIRR (%)	3.1%	5.9%	−280 bps	——
Mean Terminal Wealth (₹ Lakh)	17.8	14.2	+₹3.6 Lakh	4.18< 0.001
% Funds with XIRR > Nifty 500	68%	41%	+27 pp	χ^2=7.30.007
Mean Sharpe Ratio (Strategy)	0.82	0.61	+0.21	3.44< 0.001
Mean Max Drawdown (%)	−28.4%	−35.7%	+7.3 pp	2.910.005
Avg. Annual Switches	0.08	2.3	—	——
Avg. Annual Transaction Cost (₹)	~380	~2,840	−₹2,460	——
Avg. Annual Tax Drag (₹ estimated)	~0	~4,200	−₹4,200	——
Wilcoxon Signed-Rank (Z)	—	—	Z = 4.21	—< 0.001

Note: Hypothetical simulation using actual historical NAV data from Value Research (2015–2024). Exit load modelled at 1%; STCG tax at 15% for sub-12-month holdings. PCP assumes annual rebalancing to prior year's top-quartile scheme within the same category.

The 340-basis-point XIRR advantage for persistent investors is both statistically robust ($t = 4.62$, $p < 0.001$) and economically meaningful. Over ten years at ₹5,000 monthly, this differential translates to a terminal wealth advantage of approximately ₹3.6 lakh — representing roughly 25% more accumulated corpus. Three mechanisms drive this outcome. First, annual switching generates approximately ₹7,040 per year in combined exit loads and STCG tax, a drag that compounds substantially over a decade. Second, performance-chasing investors tend to enter top-quartile funds near cyclical peaks, purchasing at elevated NAVs and forgoing the unit accumulation benefit that accrues during subsequent drawdowns. Third, because persistent investors do not concentrate in recent high-volatility performers, their maximum drawdown is materially smaller (28.4% versus 35.7%). The Wilcoxon signed-rank test ($Z = 4.21$, $p < 0.001$) corroborates these results non-parametrically.

Hypothesis 5: Category-Level Persistence and Logistic Regression

Table 9: SIP Persistence by Fund Category.

Fund Category	5-Year Persistence (%)	10-Year Persistence (%)	Odds Ratio vs. Small-Cap	p-Value
Large-Cap	58.3%	34.6%	2.11	0.001
Mid-Cap	51.7%	28.9%	1.67	0.012
Small-Cap	44.2%	21.3%	Reference	—
Flexi-Cap	55.9%	31.8%	1.92	0.003
ELSS	72.4%	51.2%	4.38	< 0.001
Overall	52.1%	29.7%	—	—

Source: Computed from AMFI category-level SIP stoppage data. Persistence = SIP active for full period without break exceeding 3 months. Binary logistic regression with robust standard errors; Nagelkerke $R^2 = 0.31$; model $\chi^2 = 48.6$ ($p < 0.001$).

ELSS funds stand apart, and the reason is structural: the mandatory three-year lock-in prevents early redemption and compels investors to remain through at least one full market cycle. The odds ratio of 4.38 relative to small-cap funds is a particularly clean result. Among freely redeemable categories, large-cap funds exhibit the highest persistence (OR = 2.11 versus small-cap), most likely because lower volatility reduces the psychological pressure to exit during drawdowns. Small-cap funds, which attract the strongest performance-chasing inflows, also record the lowest long-run persistence at only 21.3% after ten years.

Key Findings

- Trailing 12-month raw returns are the strongest driver of SIP inflows ($\beta = 0.312^{***}$), significantly exceeding the influence of risk-adjusted performance ($\beta = 0.088^{*}$), with the Wald test confirming the difference ($F = 18.7, p < 0.001$).

- SIP discontinuation rises significantly during market downturns, with elevated stoppages in 61.5% of negative-return quarters compared with 22.2% of positive-return quarters ($\varphi = 0.49$), indicating a strong behavioural response to adverse market conditions.

- Persistent SIP investors earn 340 basis points higher annualised XIRR and accumulate approximately ₹3.6 lakh more wealth over 10 years than annual fund switchers, while also experiencing lower volatility and smaller maximum drawdowns.

- Behavioural variables India VIX, CRISIL fund ratings, and fund house brand reputation increase the explanatory power of the regression model by an additional 2.4% ($\Delta R^2 = +2.4\%$) beyond traditional return and risk measures.

- ELSS funds exhibit 4.38 times higher odds of maintaining 10-year investor persistence than small-cap funds, demonstrating that mandatory lock-in periods are more effective than voluntary investment discipline alone.

- Performance-chasing investors incur approximately ₹7,040 per year in avoidable transaction costs and taxes, resulting in a cumulative wealth disadvantage exceeding ₹3.6 lakh over a ten-year investment period.

- Small-cap funds display the highest sensitivity of investor flows to past returns (r = 0.79) but the lowest 10-year persistence rate (21.3%), indicating that return-chasing behaviour systematically undermines long-term retail investor wealth in this category.

Table 10: Summary of Key Findings

Sn.	Finding	Evidence	Hypothesis
1	Trailing 12-month raw return is the dominant driver of SIP inflows (β=0.312***), far outweighing risk-adjusted performance (β=0.088*). Wald test confirms a statistically significant difference (F=18.7, p<0.001).	Panel regression (Table 6)	H1, H4 Rejected
2	Market downturns significantly raise SIP discontinuation. Elevated stoppages in 61.5% of negative-return quarters vs. 22.2% of positive quarters (φ=0.49).	Chi-square test (Table 7)	H3 Rejected
3	Persistent SIP investors earn 340 bps higher XIRR and accumulate ₹3.6 lakh more over 10 years compared with annual switchers, with lower volatility and smaller maximum drawdowns.	Simulation + t-test + Wilcoxon (Table 8)	H2 Rejected
4	Behavioural variables — India VIX, CRISIL rating, fund house brand — add significant incremental explanatory power beyond standard return and risk controls (ΔR^2=+2.4%).	Panel regression (Table 6)	H1 extended
5	ELSS funds show 4.38× higher 10-year persistence odds vs. small-cap funds, demonstrating that institutional lock-in works better than voluntary discipline alone.	Logistic regression (Table 9)	H5 Rejected
6	Performance chasers incur roughly ₹7,040/year in avoidable transaction costs and tax, compounding the return disadvantage to over ₹3.6 lakh across a decade.	Simulation (Table 8)	H2 extended
7	Small-cap funds show the highest flow sensitivity to past returns (r=0.79) yet the lowest 10-year persistence (21.3%) — a combination that systematically reduces long-term retail investor wealth.	Correlation + Table 9	Descriptive

Conclusion and Recommendations

This study set out to answer a practical question: does chasing mutual fund performance actually make SIP investors better off? Ten years of publicly available fund-level data and five independent hypothesis tests all converge on the same answer — it does not.

Indian SIP investors show a strong tendency to respond to recent absolute returns. They often shift their

investments toward previous-year winners while paying less attention to risk-adjusted measures. SIPs are also more likely to be paused or discontinued during market downturns, even though continuing investments during such periods can provide greater benefits from rupee-cost averaging. The simulation comparing persistent investors with annual switchers shows that the former achieve an XIRR advantage of around 340 basis points, along with higher terminal wealth, lower return volatility, and smaller maximum drawdowns.

Three additional findings provide further insight into this behaviour. India VIX has a separate negative effect on SIP inflows beyond the influence of realised returns, indicating that investor uncertainty and fear may contribute to SIP discontinuation in addition to actual losses. CRISIL star ratings and fund-house brand also influence inflows through channels that appear to operate independently of individual investor behaviour. The findings for ELSS are particularly noteworthy, as its structural lock-in creates a level of investment persistence that investors may not achieve through financial awareness alone.

These findings have implications beyond individual investment portfolios. Indian households are increasingly shifting from physical assets toward financial assets. If this transition is accompanied by persistent performance-chasing, it may lead to pro-cyclical fund flows, potentially increasing market volatility, reducing some of the broader benefits of equity-market participation, and weakening retail investor confidence when strong performance is followed by a market correction.

Policy Recommendations

For SEBI and AMFI:

Require risk-adjusted performance measures, including the Sharpe ratio, Sortino ratio, and Information ratio, to be displayed as prominently as raw returns in investor-facing materials, account statements, and digital platforms. Existing disclosure practices give considerable visibility to raw returns, which may unintentionally encourage performance-chasing.

Require AMCs to publish quarterly category-level SIP stoppage rates on AMFI's website. Such information could provide investors with useful benchmarks while also encouraging greater institutional accountability.

For Product Designers and AMCs:

Consider introducing a voluntary 'SIP Commitment Scheme', structured as a non-ELSS product, that provides a modest tax deduction or exit-load waiver to investors maintaining uninterrupted SIPs for five years. The ELSS findings suggest that structural incentives may encourage persistence more effectively than financial education alone.

Redesign account statements to include a 'Rupee-Cost Averaging Benefit Calculator' showing investors, in rupee terms, the potential corpus they could lose by stopping an SIP during a 20% market correction.

For Financial Advisers and Distributors:

Fund recommendations should give greater emphasis to three-year and five-year rolling-period performance instead of point-in-time rankings. Trail commission structures could also consider client SIP continuation rates alongside investment returns.

Limitations

This study is based on fund-level aggregate data. Access to investor-level transaction records, subject to appropriate data-governance frameworks, would allow future research to examine switching timing, demographic factors associated with persistence, and the influence of particular distributors or digital platforms. The portfolio simulation uses stylised annual switching rules, whereas actual investor switching behaviour is more varied. The study also does not consider situations in which switching may be justified, such as a verified change in fund manager or clear investment style drift, rather than switching driven primarily by past performance.

Future Research Directions

Future studies could extend this framework by comparing SIP behaviour across Indian regions using SEBI's B30/T30 city classification, examining whether robo-advisory platforms reduce performance-chasing compared with traditional distributor-led investment, or applying the same methodology to debt and hybrid funds, where investor behaviour may differ because of their relatively lower volatility.

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