The Real Economics of a 20-Year ₹10,000 SIP

Context: There has been much discussion on social media about what mutual fund distributors earn from their clients, and about investing through direct plans instead. This note sets out, with simple illustrative numbers, what a monthly SIP of ₹10,000 costs an investor in distributor commission over 20 years, and how that compares with other ways of investing. The aim is to help investors understand costs, not to recommend any particular route.

Illustration assumptions (not a forecast): Monthly SIP ₹10,000 for 240 months (total invested ₹24,00,000). Assumed growth of about 12.75% p.a. (1.00% a month), chosen only to illustrate the arithmetic. Assumed distributor trail commission of 0.75% p.a. (about 0.0625% a month) on the average value of the investment. **Actual returns and commission rates vary by scheme and over time, and are not guaranteed.**

TOTAL INVESTED
₹24.00 L
240 monthly SIPs over 20 years

ILLUSTRATIVE VALUE*
₹1.01 Cr
₹1,00,73,761 at the assumed rate

DISTRIBUTOR TRAIL, 20 YRS
₹4.82 L
₹4,81,879 over 240 months

TRAIL AS % OF FINAL VALUE
4.78%
cumulative, over 20 years

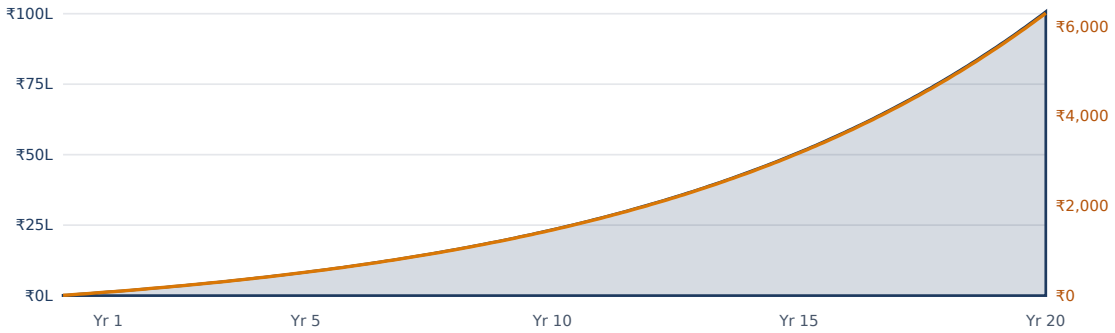
* Value shown before the trail is taken into account. In a regular plan the trail is part of the scheme's expense ratio and is deducted from returns, so at the same assumed market growth the investor's value in this example would be roughly ₹90 lakh rather than ₹1.01 Cr.

Month-by-month: how the trail builds up

Under SEBI rules, mutual fund distributors receive no upfront commission. They are paid only a trail commission by the fund house, calculated on the daily average value of the investor's holdings and paid monthly. In the early years the amount is very small.

Timeline	Total invested	Approx. value*	Monthly trail (0.75% p.a.)	Cumulative trail	What is happening
Month 1	₹10,000	₹10,100	₹6	₹6	Account opening, KYC and mandate set-up.
Month 12 (Year 1)	₹1,20,000	₹1,28,135	₹80	₹507	First-year trail is a few hundred rupees.
Month 36 (Year 3)	₹3,60,000	₹4,35,501	₹272	₹4,726	Investors typically live through a market correction by now.
Month 60 (Year 5)	₹6,00,000	₹8,26,242	₹516	₹14,181	Growth on the investment starts to add up.
Month 120 (Year 10)	₹12,00,000	₹23,31,776	₹1,457	₹71,030	Illustrative value is about 2x the amount invested.
Month 180 (Year 15)	₹18,00,000	₹50,75,074	₹3,171	₹2,05,623	Larger swings in rupee terms; staying invested matters.
Month 240 (Year 20)	₹24,00,000	₹1,00,73,761	₹6,296	₹4,81,879	Most of the trail is earned in the later years.

Illustrative portfolio value vs monthly distributor trail Portfolio value (left scale) Monthly trail ₹ (right scale)



Because the trail is a percentage of the investment's value, a distributor earns very little in the first years and more only if the investor stays invested and the investment grows. The distributor's earnings are therefore tied to the investor remaining invested over the long term.

Comparing the ways to invest: costs and how they are paid

Investors can buy regular plans through a mutual fund distributor, or direct plans on their own or with a SEBI-registered Investment Adviser (RIA). SEBI does not allow RIAs to receive product commissions; they charge the client a fee, either a fixed fee (capped by SEBI at ₹1,51,000 a year per family) or a percentage of assets under advice (capped at 2.5% a year). Fees within these caps are set by each adviser. Each route suits different investors.

Route	How the cost is paid	Illustrative 20-year cost in this example	Things to consider
Mutual fund distributor (regular plan)	Trail of ~0.75% p.a. included in the scheme's expense ratio; paid by the fund house, not invoiced to the investor.	₹4.82 L (₹4,81,879)	No separate bill. Covers transaction and service support. The distributor does not provide investment advice for a fee.
RIA, fixed fee (direct plan)	Annual fee paid directly by the investor. Example used here: ₹20,000 a year (actual fees vary by adviser).	₹4.00 L flat ₹6.61 L if raised 5% a year	A fixed fee is a larger share of a small portfolio in the early years and a smaller share later. Includes personalised advice.
RIA, % of assets (direct plan)	Example: 0.75% p.a. of assets under advice, billed periodically, plus 18% GST on the fee.	~₹5.65 L (incl. ~₹86,000 GST)	Fee is visible and paid separately. Includes personalised advice.
Direct plan, on your own	No distribution cost; lower expense ratio.	—	Lowest cost. The investor handles fund choice, paperwork, rebalancing and staying disciplined on their own.

Practical challenges over a 20-year journey

Whichever route an investor chooses, these are common challenges over a long SIP:

1. Reacting to market falls
Over 20 years an investor may see several sharp falls (for example in 2008 and 2020). Stopping SIPs or redeeming during a fall can hurt long-term results. Having someone to talk to, or a written plan, can help investors stay the course.

2. Chasing recent winners
Moving money into last year's best-performing theme or sector, and out of broad funds during a weak patch, can reduce long-term returns.

3. Paperwork and housekeeping
Nominee updates, bank mandate renewals, KYC re-validation, address changes and tracking across several fund houses need regular attention.

4. Tax and goal timing
Switching between schemes can trigger capital gains tax and exit loads. Gradually reducing risk 2–3 years before a goal such as education or retirement needs planning.

Our view: A distributor's trail commission is paid by the fund house for distribution and ongoing service: helping with transactions, documentation and folio maintenance, and supporting the investor to stay invested through market cycles. Investors who want personalised financial advice can consult a SEBI-registered Investment Adviser. Investors should compare total costs, the services they receive, and their own comfort in managing investments before choosing a route.

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Disclaimer: Mutual Fund investments are subject to market risks, read all scheme related documents carefully. This note is for investor education only and is not investment advice or a recommendation to buy, sell or switch any scheme or plan. The figures are a hypothetical illustration based on an assumed rate of return and an assumed commission rate; they are not a projection or guarantee of future returns, and actual results will differ. Past performance is not indicative of future returns. Commission rates differ across schemes and fund houses and may change. Investors should consider their own goals, investment horizon and risk appetite, and may consult a SEBI-registered Investment Adviser for personalised advice.