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A thread on Price Based Systematic Investment Plan (PB-SIP) methodology which I follow for my stock investments ■

In this thread I write about
- What is price based SIP?
- Features of PB-SIP
- What is the merit of Price Based-SIP over Time Based SIP (TB-SIP)?

Note:
- This methodology is NOT backtested (so, it could be bullshit). I follow this approach because it makes logical sense to me

- This method is not about how to pick the right stocks. This is about how I do SIP in the stocks that I already shortlisted based on fundamentals

What is SIP?

SIP is a methodology where an investor invests in an instrument in a periodic manner.

The metric widely used to define periodicity is time i.e, SIP is done monthly or bi-weekly or quarterly.

However the periodicity could also be dictated by price instead of time.

What is Price Based SIP?

- PBSIP is the type of SIP where you do a SIP instalment when price action gives you a signal to buy

- The time intervals between two PB-SIP instalments is uneven and dictated by price action

- The SIP instalment amount is also dictated by price action

Features of PBSIP:

- SIP amount is proportional to how far the buy price is away from 52 week high

- During downtrend, the SIP amount will be equivalent to martingale type position sizing

- During uptrend, the SIP amount will be equivalent to pyramiding type position sizing

Lets say we have 14 stocks in folio & invested 1L in each stock to begin with. Now we want to do PB-SIP

The rules:

1. Buy when Supertrend 7,5 gives buy in 1H chart
2. SIP amount=X*Y/14

where,
X: % buy signal is away from 52 week high
Y: total invested amount (=14L for 1st SIP)

Example

ASIANPAINT ST75 level in 1H is 17.7% away from 52 week high

TITAN ST75 level in 1H is 3.8% away from 52 week high

Lets say first AP gave a buy, then TITAN gave a buy

1st SIP amount in AP = (0.177*1400000/14) = 17700

1st SIP amount in TITAN = (0.038*1417770/14) = 3848

Intent here is to buy more of stocks under correction, assuming that the underlying company is quality enough that its stock price ■■ in long run

We can multiply SIP amount in equation with risk_appetite_factor, which ■■ with each passing year, as we inch closer to corpus target

Potential demerit of this system:

Stock with the highest % return (ex TATAELXSI) in our portfolio will have least amount invested as buy signals would have been near 52 week high

Stock under consolidation/correction (ex ITC, HUL) with lowest % return will have higher weightage



Favorable scenario :
In stock like RADICO, we SIP-ed small amount during the hyperbolic run up (Apr-Dec'21) and are SIP-ing big amount now when it is under correction

Ideal scenario:
Stocks like ITC run up big some day, and we have accumulated it enough using this methodology.



I chose ST 7,5 as it gives 10-15 buy signals in an year, which fits my requirement

One can finetune ST parameter and risk_appetite_factor as per needs

Conclusion:
Time based SIP is agnostic to price action, which I feel is non-ideal. Price based SIP potentially overcomes this.