Investing Insights

work with volatility, not against it

Dollar-cost-averaging (DCA) can be an opportunity for investors to take advantage of a down market. DCA helps reduce volatility by removing emotion from purchasing, leverages the down market by capturing stocks at lower prices, and helps take the guess work out of investing.

Strategy 1* - Lump Sum Investment

Buy $60,000 worth of shares in one lump sum on 08/01/02 and hold for 6 months. → $ 56,260 653 shares

Total portfolio value after one year through 08/01/03 → $ 66,315 653 shares

Strategy 2* - Dollar-Cost-Averaging

Invest $10,000 per month for 6 months starting 08/01/02 and hold for 6 months. → $ 58,532 677 shares

Total portfolio value after one year through 08/01/03 → $ 68,992 677 shares

Implementing a DCA Strategy

- Invest on a regular schedule. The amount of money and frequency are up to you, the investor.
- Purchase in fixed dollar amounts at regular intervals, regardless of what direction the market is moving and regardless of the share price.
- Buy low, sell high. This approach results with you buying more shares at lower, perhaps bargain prices and fewer shares at higher prices.
- A key factor to the success of this approach is to select an amount you can stick with faithfully over time.

* This is a hypothetical example and is not representative of any specific situation. Your results will vary.

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strategy vs. emotion

- Look at down markets as an opportunity. Many investors are victims of their own emotions.
- Often after stock prices have risen markedly, investors get optimistic and buy shares. Those same investors often sell when they become fearful after prices have already dropped.
- The consequence is investors buy at high prices and sell at low prices, the very opposite of what they should do to best work toward their goal.
- It's affordable. You can invest the same amount but payments are spread out over time.
- Keep in mind that dollar-cost-averaging does not protect you against losses and is a long-term strategy.
- Such a plan involves continuous investment in securities regardless of fluctuation in price levels of securities. An investor should consider their ability to continue purchasing through periods of low price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.

If you want to avoid the "buy high, sell low" trap, then dollar-cost-averaging can be a valuable strategy in a down or uncertain market.