

Dollar Cost Averaging

Many investors look to the stock market for capital growth, investing in individual stocks or mutual funds. In the short run, the daily fluctuations in mark prices can make it difficult to decide when to buy.

Rather than trying to “time” the market and make a single purchase, many investors use a method called dollar cost averaging*. Using dollar cost averaging, an investor buys the same investment at regular intervals; e.g., monthly or quarterly, with a fixed amount of investment dollars; e.g., \$100 per month.

When the selected investment declines in value, the investor’s \$100 will buy a greater number of shares. When the market price increases, the investor’s \$100 will buy fewer shares. Over a period of time, as market prices fluctuate, the cost per share to the investor may be less than the price per share.

For example, assume an investment of \$100 per month for 12 months in XYZ shares:			
Month	Dollars Invested	Price Per Share	Number of Shares Purchased
Jan	\$100	\$10.00	10.00
Feb	\$100	\$13.00	7.69
Mar	\$100	\$15.00	6.67
Apr	\$100	\$12.00	8.33
May	\$100	\$17.00	5.88
June	\$100	\$18.00	5.56
July	\$100	\$15.00	6.67
Aug	\$100	\$20.00	5.00
Sept	\$100	\$22.00	4.55
Oct	\$100	\$23.00	4.35
Nov	\$100	\$19.00	5.26
Dec	\$100	\$25.00	4.00
Total	\$1,200	\$209.00	73.95
The Average Price Per Share: $(\$209.00/12) = \17.42			
The Average Cost Per Share: $(\$1,200.00/73.95) = \16.23			

Important Notes:

1. Investments must be regular and the same amount each time. If the investor discontinues the plan when the market value is less than the cost of the shares, he or she will obviously lose.
2. The investor must be willing and able to invest during the low price levels.
3. This plan does not protect the investor in a steadily declining market.
4. The above charts, representing hypothetical rates of return are for illustrative purposes only and do not represent the future performance of any investment. Investments differ as to their reaction to changing interest rates and market volatility, and offer various levels of risk associated with the stability of principal.
- *5. Dollar cost averaging does not assure a profit or protect against loss in a declining market and involves continuous investment in securities regardless of fluctuating prices. Investors should consider their ability to continue investing through periods of low price levels.

*Source: S&P 500 Index