

Fact Sheet for investors

Dollar cost averaging

After all, if you could consistently buy low and sell high, you'd have plenty of money for retirement – or for anything else. A more workable investment strategy, based on the same ideal, is called “dollar cost averaging.” It's a discipline that helps investors invest more efficiently.

Dollar cost averaging means you invest a specific dollar amount in your investment portfolio regularly. This could be every two weeks or every month just as you're probably doing in your long-term investments plan. Doing this, you're investing systematically, regardless of what shares or bonds are doing at the moment. It's a trick of the trade, and you're probably doing it already!

How Dollar Cost Averaging Works

With dollar cost averaging, you commit to invest a set dollar amount on a regular basis and stick with this approach through both good and bad markets. This discipline is easy to maintain, especially when you have your long-term investments contributions made automatically through payroll deductions or direct debit.

When market prices are falling, you automatically buy more units in the funds with each subsequent investment. When prices start to rise, you buy fewer units. Because you're buying more units when prices are lower and fewer units

when prices are higher, the average cost of your units will be below the average market price of all the units (see table over).

Dollar cost averaging cannot guarantee a profit or protect you against a loss in declining markets. However, a commitment to dollar cost averaging does reduce the odds that you will invest a large sum when the market has just hit a high point. Perhaps the best thing about dollar cost averaging is that it's a technique that eliminates the emotional factor from your investment programme.

Dollar cost averaging is especially well suited for a long-term investment goal such as retirement. It is also applicable for one off investments during times of high market uncertainty. In this latter case, you should decide the ultimate investment position you want and then plan an entry program to achieve that position.

» Key message

Dollar cost averaging is a workable investment strategy designed to help investors invest more efficiently.

Reducing Risk With Dollar Cost Averaging

Month	Contribution	Price Per Share	Number of Shares Purchased
1	\$250	\$1.00	250
2	\$250	\$0.85	294.1
3	\$250	\$1.10	227.3
4	\$250	\$1.20	208.3
Total Shares Purchased	$250 + 294.1 + 227.3 + 208.3$	= 979.7	
Total Investment	$\$250 + \$250 + \$250 + \250	= \$1000	
Average Price Per Share	$(\$1.00 + \$0.85 + \$1.10 + \$1.20) \div 4$	= \$1.04	
Average Dollar Cost Per Share	$\$1000 \div 979.7$	= \$1.02	

For example, let's say you decided you wanted to invest \$100,000 in overseas shares but you are concerned about the current state of the market. In this situation, one "dollar cost averaging"

entry strategy would be to invest \$20,000 per month for the next 5 months, thus achieving your ultimate goal.

The key to success is to avoid trying to "time" the market, plan your strategy and stick to it.