

Dollar Cost Averaging

Any long-term investment plan will most likely have to weather market ups and downs. One technique to “stay the course” is Dollar Cost Averaging or making periodic investments of the same amount of money in the same stock regardless of whether the price is declining or ascending.

How It Works

Using this systematic investment technique, an investor buys more shares when prices are low and fewer shares when prices are high. As a result, your average cost per share over time may be lower than the funds’ current market price.

Dollar cost averaging cannot guarantee you a profit or a lower cost per share, nor can it protect you against loss; however, it is a strategy that reinforces the discipline of regular investing and offers a systematic alternative to “market timing.” In order to take full advantage of dollar cost averaging, investors should consider their ability to continue making purchases through periods of fluctuating prices.

Hypothetically Speaking

The chart below demonstrates that by investing \$1,000 a month for one year, you could actually pay less per share than the average market price per share.

MONTH	MONTHLY INVESTMENT	HYPOTHETICAL MARKET PRICE PER SHARE	APPROXIMATE NO. OF SHARES PURCHASED
1	\$1,000	\$10.00	100
2	\$1,000	\$8.00	125
3	\$1,000	\$6.25	160
4	\$1,000	\$5.00	200
5	\$1,000	\$6.25	160
6	\$1,000	\$8.00	125
7	\$1,000	\$10.00	100
8	\$1,000	\$12.50	80
9	\$1,000	\$20.00	50
10	\$1,000	\$12.50	80
11	\$1,000	\$10.00	100
12	\$1,000	\$8.00	125
Average market price per share			\$9.71
Average cost per share			\$8.54

This example is hypothetical. Be aware that investment returns and principal value of stocks and mutual funds will fluctuate due to market conditions. Therefore, when shares are redeemed, they may be worth more or less than their original cost.

More Information

Remember, maintaining a regular investment program and balancing your portfolio to account for a level of risk you find comfortable are important to the overall success of your financial strategies. For more information, please contact our retirement plan consultant at 401khelp@hubinternational.com.