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The Savvy Investor
Dollar Cost Averaging

What is DCA?

Dollar Cost Averaging takes much of the guesswork out of investing. **The strategy consists of buying the same dollar amount of an investment on a regular basis.** For example, on the first day of every month (or every Monday) you invest $1,000 in the same security or portfolio. **With this strategy, you automatically buy more shares of a security when the price is low and fewer shares when the price is high.** For dollar-cost averaging to be successful, you must be disciplined and invest the same amount regularly in both up and down markets.

This strategy doesn't guarantee a profit nor protect against incurring a loss in a declining market. However, it does take the guess work out of trying to determine the best time and price to buy shares. It also provides a very attractive psychological advantage. Since you automatically buy more shares when the price is low, you may find yourself rooting for the share price to stay low while you are Dollar Cost Averaging. Thus, market declines can be rewarding – both monetarily and psychologically.

Disadvantages

A disadvantage of Dollar Cost Averaging is that in the long run, stocks tend to rise more than they decline. Therefore, if you have a lump sum to invest, the odds are that you would be better off most of the time investing the full lump sum all at once. However, this also poses more risk and stress than many investors can accept. It's pretty difficult for most investors to invest $1,000,000 all at once and watch this large an amount decline in the short-term, which is always a possibility.

Strategy

If you have a lump sum to invest, such as from a pension or company buy-out, you might follow the following strategy:

- **Very aggressive investors:** invest the full amount all at one time, ignoring Dollar Cost Averaging.
- **Moderately aggressive investors:** follow Dollar Cost Averaging and invest the money over a period of about three months.
- **For conservative investors,** Dollar Cost Average over a longer period of 9 to 12 months.

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Dollar Cost Averaging Example

The following shows how you can benefit from Dollar Cost Averaging, even if the market ends up right at the same point where it was four months earlier.

Purchase Date	Amount Invested	Price Per Share	Shares Purchased
January 1	$1,000	$10	100.00
February 1	$1,000	$8	125.00
March 1	$1,000	$10	100.00
April 1	$1,000	$12	83.33
May 1	$1,000	$10	100.00
Total	**$5,000**		**508.33**

Total Investment:	**$5,000.00**	
Price per Share (May 1)	**$10.00 (same as 4 months earlier)**	
No. of Shares Owned	**508.33**	
Market Value:	**$5,083.00**	(Current Price of $10 x 508.33 shares)

By taking advantage of dollar cost averaging, your investment is worth $5,083 but only cost you $5,000. This is in a market that went absolutely no place, starting at $10 per share and ending at $10 per share. You have effectively timed the market, buying more shares when the price was low and fewer shares when the price was high. And most likely, you were able to sleep well at nighttime. I always favor the strategies that let you sleep well at nighttime – and let you eat well during the daytime.

Would like to know if dollar cost averaging is appropriate for you? Then please contact us for independent investment advice.