benefits of dollar cost averaging

Highlights

- Using this strategy, more shares are purchased when prices are low, and fewer shares are bought when prices are high.
- The benefit of dollar cost averaging is highest when there is uncertainty in the market.
- Dollar cost averaging is easy to understand, eliminates timing difficulties, and removes emotions from decision-making.
- Dollar cost averaging does not protect investors against losses. It does result in the average cost per share being lower than the average price of the shares over time.

Dollar cost averaging is a well-known investment strategy designed to help reduce volatility by purchasing securities in fixed dollar amounts at regular intervals, regardless of what direction the market is moving and regardless of the share price. Using this strategy, more shares are purchased when prices are low, and fewer shares are bought when prices are high. For example, an investor might choose to purchase $100 in shares of a mutual fund every month. When each share of the mutual fund has a higher price, the $100 will purchase fewer shares. However, when the price falls, the same dollar amount will purchase more shares. The investor pays a mix of higher and lower prices for the investment, rather than trying to pick the optimum day to make their investment into the fund. By investing a set amount over time, investors take advantage of the rise and fall of prices in the market to smooth returns. An investor should consider their ability to continue purchasing though periods of low price levels. Such a plan does not ensure a profit and does not protect against loss in declining markets.

The benefit of dollar cost averaging is highest when there is uncertainty in the market. Poorly performing markets provide great entry points for investments. However, since a market bottom is a process, not a day, dollar cost averaging ensures that investors are purchasing at regular intervals and are thus able to take advantage of market slumps by automatically buying more of an investment for the same amount of money. Dollar cost averaging takes some of the guesswork out of investing and helps lessen the risk of investing a large amount in a single investment at the wrong time.

SHARES PURCHASED WITH $40,000 - Lump Sum versus Dollar Cost Averaging*

Purchase Methods of the iShares S&P 500 Index ETF (IVV)

	Price	Number of Shares Bought with a $40,000 Lump Sum on 01/01/08	Number of Shares Bought Using Dollar Cost Averaging $5,000 per Month
Jan '08	133.1	287.0	37.6
Feb '08	131.6	--	38.0
Mar '08	138.0	--	36.2
Apr '08	139.7	--	35.8
May '08	128.0	--	39.1
Jun '08	127.1	--	39.4
Jul '08	128.9	--	38.8
Aug '08	116.8	--	42.8
# of Shares Owned		287.0	307.6
Value as of Aug '08		$33,528	$35,932

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

Dollar cost averaging is a relatively mechanical investment strategy that has much to offer the typical investor. It's easy to understand, eliminates timing difficulties, and removes emotions from decision-making.

The example on the previous page illustrates options an investor had at the start of 2008, to invest a lump sum of money into the iShares S&P 500 Index ETF (IVV) or to dollar cost average by purchasing a set amount each month. With the lump sum of $40,000, the investor would have bought 287 shares. However, by dollar cost averaging, the investor would have been better off, given the fact that the volatile markets provided opportunities to put money to work at both higher and lower price levels. The result in this case would have been an increase in the overall shares owned after eight months, and thus, an increase in the value of the portfolio.

Implementing a Dollar Cost Averaging Strategy

Dollar cost averaging is a relatively mechanical investment strategy that has much to offer the typical investor. It's easy to understand, eliminates timing difficulties, and removes emotions from decision-making. Best yet, it is the most effective means to put money to work under uncertain times for the market.

A key factor to the success of this approach is to select an amount you can stick with faithfully over time.

This simple investment technique is defined by two directives: (1) invest the same amount of money (2) at regularly scheduled intervals. The amount of money and frequency are up to you, the investor. A key factor to the success of this approach is to select an amount you can stick with faithfully over time. This approach automatically results in buying more shares when prices fall and buying fewer shares when prices rise. In effect, investors are buying more shares at lower, perhaps bargain prices and fewer shares at what might be considered high prices. Keep in mind that it is imperative to stay with the plan and ignore market fluctuations when employing this strategy.

Dollar Cost Averaging in Uncertain Times

While some investors will choose to look for shelter, others view a down market as an opportunity. Many investors are victims of their own emotions. In fact, it's often after stock prices have risen markedly that many investors get optimistic and buy shares. And those same investors often sell when they become fearful after prices have already dropped. The consequence is that investors buy at high prices and sell at low prices, the very opposite of what they should do to best work toward their goal.

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

Investors must not let their emotions get the best of them, and must exercise the discipline of maintaining a systematic investment program. If investors want to avoid the "buy high, sell low" trap, then dollar cost averaging can be a valuable strategy in a down or uncertain market. Keep in mind that dollar cost averaging does not protect investors against losses. While it does result in the average cost per share being lower than the average price of the shares over time, in a bear market an investor can have losses. Dollar cost averaging may also lower your potential profits, if done in a steadily rising market. If a stock's share price rises all year long, then an investor would have greater gains if they make a single large investment early in the year.

Conclusion

Dollar cost averaging is a great strategy for an investor who is uncertain about the future of the market to use. However, if you are confident of a bull market, the best strategy is likely to make a lump sum investment rather than dollar cost averaging in. If the latter description doesn't fit you or the current market conditions, the least risky way to take advantage of great entry points during a down market is to consider and implement a dollar cost averaging plan.

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Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read carefully before investing.

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