PO Box 2107
CHERMSIDE CENTRE QLD 4032

653 Robinson Road
ASPLEY QLD 4034

T (07) 3263 4123
F (07) 3263 1688

Dollar Cost Averaging

Investing a fixed amount of money over a regular period of time is a popular investment strategy called dollar cost averaging. This strategy reduces the chance of investing your money at a bad time, as your money is invested in smaller, regular intervals. Dollar cost averaging also provides a disciplined way to save for the future, as it gets you in the habit of saving on a regular basis.

If you invest on a regular basis rather than putting all your money in at once, you can minimise the effect of a market downturn. Investing regularly, regardless of whether the market is up or down, means that you achieve an 'average' unit price over time, rather than a single price for all of your money.

How does dollar cost averaging work?

Let's consider Bob and Betty, who both have $12,000 to invest for the long term (5 years plus). Bob invests $12,000 in January, at a unit price of $1.00. Betty invests $1,000 each month, at various unit prices on each monthly investment. Let's see how Bob and Betty both fare.

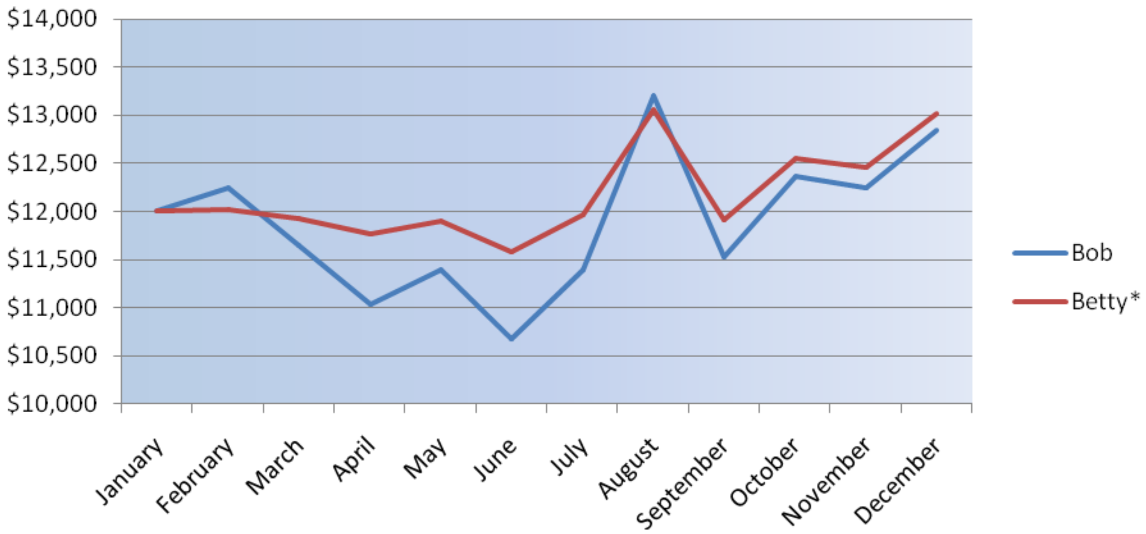
Month	Investment unit price	Bob's Investment	Units purchased	Betty's investment	Units purchased
January	$1.00	$12,000	12,000	$1,000	1,000
February	$1.02	-	-	$1,000	980
March	$0.97	-	-	$1,000	1,031
April	$0.92	-	-	$1,000	1,087
May	$0.95	-	-	$1,000	1,053
June	$0.89	-	-	$1,000	1,124
July	$0.95	-	-	$1,000	1,053
August	$1.10	-	-	$1,000	909
September	$0.96	-	-	$1,000	1,042
October	$1.03	-	-	$1,000	971
November	$1.02	-	-	$1,000	980
December	$1.07	-	-	$1,000	935
Total Invested	**-**	**$12,000**	**12,000**	**$12,000**	**12,165**

Value at end @ $1.07 per unit	Bob	Betty
Market value	$12,840	$13,016
Total return	7.00%	8.47%
Dollar cost averaging benefits	**-**	**$175 (1.47%)**

The unit price went up as well as down, but by investing each month Betty was able to purchase more units when the unit price fell. Bob, on the other hand, did not benefit during the period the unit price dropped.

By investing each month, Betty achieved an 'average' unit price of $0.9865 (compared with Bob's unit price of $1.00). This allowed her to generate a greater investment return (+1.47%). This is shown in the graph below.

Reducing timing risk and volatility by dollar cost averaging



* Betty's investment value assumes that she holds the remainder of her $12,000 in a bank account whilst she invests $1,000 per month (i.e. after January Betty has $11,000 in the bank, after February she retains $10,000 in the bank, until she is fully invested in December). Betty receives no interest on her money while it is in the bank account.

As you can see, Betty's investment value remains more stable during a market downturn, and also benefits from a higher value when markets picks up again.

When is the best time to use dollar cost averaging?

Dollar cost averaging is most effective when investment markets are volatile, and during a falling market. During these times, dollar cost averaging helps reduce the effects of volatility and the chance of investing at a bad time.

It should be noted however, that dollar cost averaging does not *guarantee* a profit or a positive return. Lump sum investments can generate higher returns, particularly if you manage to invest all of your money when the market is at a low point. However, with this comes the added risk of market timing and greater variability in returns.

If this sounds like something you need to explore, or review what you already have, please feel free to fill in the form here: https://www.fasttrackwealth.com.au/contact-us/

Or contact Adam on 07 3263 4123.