Module 1: Classroom Exercise

Dollar Cost Averaging in Action

This activity helps students understand the power of dollar cost averaging with an illustrative example of purchasing a low-cost index fund at regular intervals over an investment period. This helps students understand how they can place their investing on autopilot and automatically invest a fixed period each month.

Part 1: Understanding Dollar Cost Averaging

You've decided to invest in a low cost index fund with the ticker symbol SPY which tracks the S&P 500 and plan to automatically invest $200 per month on or near the 15th every month. Your first contribution is on January 15th. Answer the following questions:

1. On January 15th, if SPY costs $50/share, how many shares did your $200 buy?

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2. On February 15th, if SPY costs $40/share…

a. How many new shares did your contribution buy? How many do you now own?

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b. How much have you spent so far on your whole portfolio?

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c. What is the average cost you've paid per share?

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d. What is the current value of your whole portfolio?

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e. How did you benefit from the share price dropping?

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f. What is a downside of the share price dropping?

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3. On March 15th, if SPY costs $37/share…

a. How many new shares did your $200 buy? How many total shares do you own?

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b. How much have you <u>spent</u> so far on your whole portfolio?

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c. What is the average cost you've paid per share?

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d. What is the current <u>value</u> of your whole portfolio?

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e. The share price is even lower. Why might some investors consider this a good thing?

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4. On April 15th, if SPY costs $65/share…

a. How many <u>new</u> shares did your $200 buy? How many <u>total</u> shares do you own?

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b. How much have you <u>spent</u> on your whole portfolio and what is the <u>current value</u>?

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c. What is the average cost you've paid per share?

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d. How did you benefit from the share price increasing?

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e. What is a downside of the share price increasing?

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5. In your own words, describe what is meant by dollar cost averaging and how do investors benefit from this?

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