Dollar Cost Averaging

Many investors look to the stock market for capital growth, investing in individual stocks or mutual funds. Historically, the stock market has charted a long-term upward trend. In the short run, however, daily fluctuations in prices can make it difficult to decide when to buy.

Rather than trying to time the market, and making a single purchase, many investors use a method called dollar cost averaging. Using dollar cost averaging, an investor buys the same stock or mutual fund at regular intervals; e.g., monthly or quarterly, and with a fixed amount of investment dollars; e.g., $100 per month.

When the selected stock or mutual fund declines in value, the investor's $100 will buy a greater number of shares. When the market price increases, the investor's $100 will buy fewer shares. Over a period of time, as market prices fluctuate, the average cost per share to the investor will be less than the average price per share.

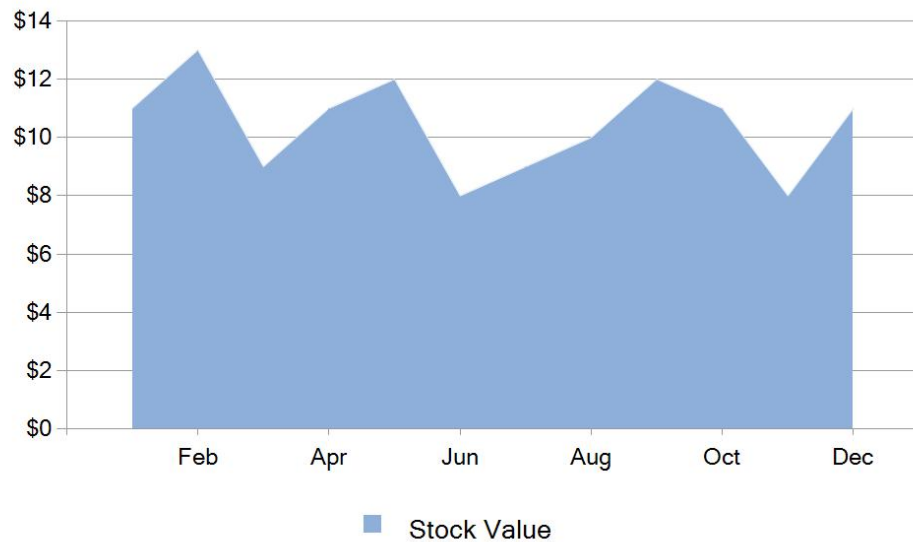For example, assume that a person invests $100 per month for 12 months in XYZ mutual fund.

Month	Dollars Invested	Price per Share	Number of Shares Purchased
Jan	$100	$11.00	9.09
Feb	$100	$13.00	7.69
Mar	$100	$9.00	11.11
Apr	$100	$11.00	9.09
May	$100	$12.00	8.33
Jun	$100	$8.00	12.50
July	$100	$9.00	11.11
Aug	$100	$10.00	10.00
Sept	$100	$12.00	8.33
Oct	$100	$11.00	9.09
Nov	$100	$8.00	12.50
Dec	$100	$11.00	9.09
Total	$1,200	$125.00	117.94

The average price per share: ($125.00 /12) = $10.42

The average cost per share: ($1,200 /117.94) = $10.17

Presented by Jason Mangold

Graphically, the results of dollar cost averaging in our example would look like this.

Stock Value

Notes:

- Investments must be regular and the same amount each time. If the investor discontinues the plan when the market value is less than the cost of the shares he or she will obviously lose money.
- The investor must be willing and able to invest during the low price levels.
- Dollar cost averaging cannot assure a profit and does not protect the investor in a steadily declining market.

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