LORREQUER
Wealth & Advisory

Dollar Cost Averaging

Dollar cost averaging is the process of making regular investments on an ongoing basis. It involves continuous investment of the same dollar amount into an investment at predetermined intervals usually monthly, quarterly, or annually, regardless of the investment's fluctuating price levels.

Because you're investing the same amount of money each time when you dollar cost average, you're automatically buying more units of an investment when its price is low and fewer units when its price is high. Over time, this strategy can provide an average cost per unit that's lower than the average market price.

Example: Every month you decide to invest $100 in the XYZ Australian Share Fund.

Month	Unit price	Amount invested	Units purchased
1st month:	$10.00	$100	10
2nd month:	$12.50	$100	8
3rd month:	$5.00	$100	20
4th month:	$10.00	$100	10
5th month:	$20.00	$100	5
6th month:	$10.00	$100	10
Total over 6 months:		**$600**	**63**

Your Average Purchase Price ($600 ÷ 63) = $ 9.54
The Average Price of the Fund for 6 months = $11.25
If you paid the $600 in the first month, you would only have received 60 units vs. the 63 you would earn with dollar cost averaging.

Benefits

- By investing gradually into the market, you will not expose your entire capital in the event of a severe market downturn. This can help limit capital loss.
- As can be seen above, by investing the same amount regularly, you automatically buy more units when the market is down and fewer when the market is up. This is exactly what successful investors do.
- While a dollar cost averaging investor might also suffer a loss in a declining market, the loss may be less severe than that of a lump-sum investor.
- A DCA strategy can take the emotion out of investing which can lead to the following psychological advantages:
    - it can reduce your propensity to “buy at the top” and “sell at the bottom” - thus makes you less tempted to “time” the market;
    - it gives you a concrete plan for moving out of cash. The move from “safe” to “higher risk/return” can be an uncomfortable one, and often people want to feel that they’re doing it in a controlled manner. Having a clear plan to do it over a period of time is better than not doing it at all.

Important: Any advice in this communication has been prepared without taking into account your objectives, financial situation or needs. Because of this you should, before acting on any advice in this communication, consider whether it is appropriate to your personal circumstances.

Consequences

- If you DCA during times when markets are increasing, you might forgo capital gains while you sit on excess cash. It holds true that while a DCA strategy can reduce risk, it can also mean lower returns in rising markets.
- It can also be difficult to maintain the discipline necessary to buy your investments on a regular basis. Automation of the process helps.

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