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LOWE LIPPMANN FINANCIAL SERVICES

DOLLAR COST AVERAGING

Market timing sounds ideal in theory. The problem is that very few investors, and even few professional fund managers, can accurately predict movements in the share market and, more often than not, market timers sell when the market is low and are out of the market when the inevitable rally occurs. Some people get it right some of the time, but the key point is that for longer-term investors, market timing can expose investors to the very risks they are tyring to avoid.

Statistics show that investors who stay invested and remain focused on the long-term upward trend in the share market will do better. History tells us that:

- The underlying long term trends in share markets are positive.
- Markets tend to regain any short-term lost performance.
- Periods immediately prior to and following a market correction are generally characterised by robust performance, magnifying the risks and costs of incorrect market timing.

The greatest risk in attempting to time the market is **not** the risk of being in the market during a declining market, but the risk of being **out of the market** at the trough of a decline when sentiment is at its most negative and potential returns are at their most robust. Consequently, investors with a disciplined investment approach and a focus on long-term wealth creation enjoy better long-term returns than investors who attempt to time the market.

One way you can ensure that you have a disciplined investment approach and that you reduce the prospect of missing an opportunity, is to employ a savings principle known as **dollar cost averaging.**

Dollar cost averaging is a strategy that entails making an investment in the same security at regular intervals over a period of time. The period could be months or years and the regular intervals, weeks or months. In practical terms it takes the guesswork and emotion out of trying to time your entry into the market and allows you to build your investments over time.

Summary

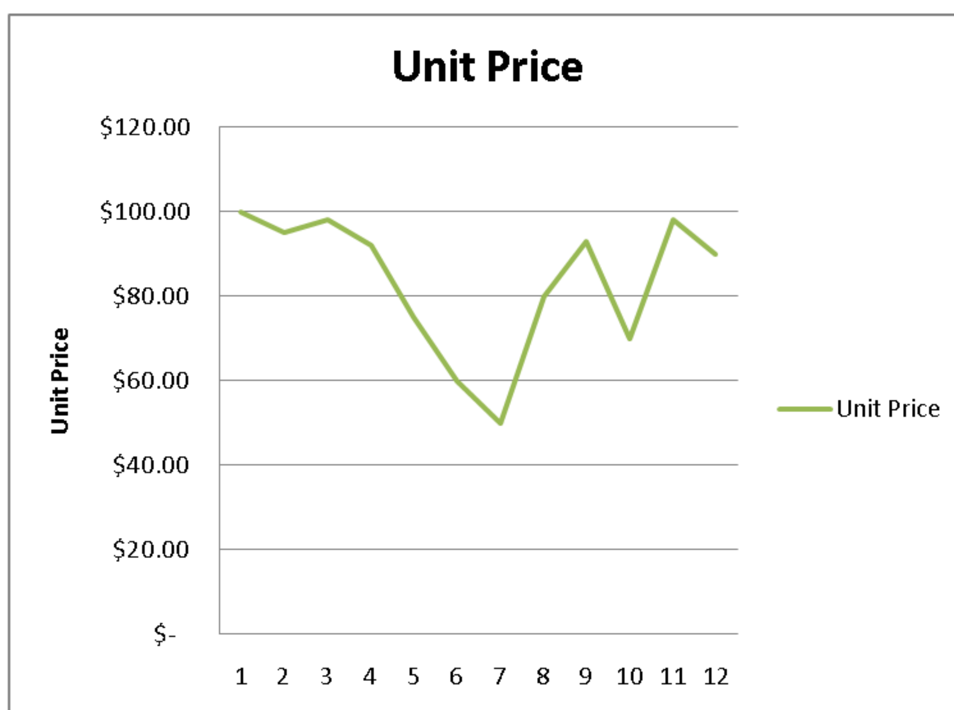
It should be noted that dollar cost averaging works best in a falling or a volatile market over a long period of time. Dollar cost averaging will not guarantee a profit (particularly if the investor has to sell at a bad time) and bigger gains are possible by investing a lump sum. However, dollar cost averaging is a highly effective way to avoid the risk of investing at a bad time.

An example of how it works is set out on the following page:

Dollar Cost Averaging Example

Month	Amount invested $	Unit price $	Units purchased
1	100	100	1.00
2	100	95	1.05
3	100	98	1.02
4	100	92	1.09
5	100	75	1.33
6	100	60	1.67
7	100	50	2.00
8	100	80	1.25
9	100	93	1.08
10	100	70	1.43
11	100	98	1.02
12	100	90	1.11
Total	$1,200		15.05

	Amount
Total Amount Invested	$1,200
Total End Value (Total Units x End Value per unit)	$1,354
Gross Capital Gain	$154



A capital gain was achieved without the price per unit ever going above the starting price of $100. Of course it can also working reverse if markets rise over the period however our objective is to limit your downside risk by not investing all funds when the market is at its highest level.