

Dollar Cost Averaging

Making regular deposits into an investment fund can provide you with significant benefits. By making small regular deposits rather than one large lump sum deposit, you can reduce the vulnerability of your investment to market fluctuations. For example, if you commit to investing \$1,000 a month in January. With a unit price of \$1.00, your first instalment purchases 1,000 units. The next month, you invest another \$1,000 but this time the unit price has risen to \$1.10, buying you 909 units. This is illustrated in the table below.

Month	\$ Invested per month	Unit price \$	Units Purchased	Cumulative Value \$
January	1,000	1.00	1,000	1,000
February	1,000	1.10	909	2,099
March	1,000	1.05	952	3,004
April	1,000	0.95	1,053	3,718
May	1,000	0.90	1,111	4,522
June	1,000	0.85	1,176	5,270
July	1,000	0.75	1,333	5,650
August	1,000	0.90	1,111	7,780
September	1,000	1.05	952	10,076
October	1,000	1.10	909	11,556
November	1,000	0.95	1,053	10,981
December	1,000	1.00	1,000	12,559
Total	\$12,000		\$12,559	\$12,559

Assuming you continue to save \$1,000 a month for the rest of the year, you will purchase varying quantities of units at fluctuating prices. By the end of the twelve months the unit price has returned to \$1.00. At first it may seem that no gain has been made. But if you look at the number of units purchased, your investment account shows a balance of 12,559 units purchased with \$12,000. With a current unit price of \$1.00 the investment is now worth \$12,559, \$559 more than your overall contribution for the year - a return of 4.66%.

If unit prices rise consistently above \$1.00 in the following years, you stand to make significant profits. Alternatively, if unit prices fall below \$1.00 you may lose money. However it has been shown that Dollar Cost Averaging can be a profitable strategy over the long-term, particularly when markets are falling.

The above strategy also works well with investors who are looking to move to a higher risk profile, or who have substantial amounts invested in cash. By using the dollar cost averaging approach over a longer time period (1 year for example) you are not exposed to significant losses if the markets were to take a substantial fall whilst still ensuring you participate in any rallies in the markets.