

Dollar Cost Averaging

Do you want a strategy for smoothing out the peaks and valleys of a volatile stock market? Do you want to make saving a priority in your monthly budget? Do you want to pay yourself first?

Dollar Cost Averaging is the practice of investing a set amount of money at particular intervals, most commonly monthly. This allows you to average out the price at which you buy your investment over time. This is particularly useful in a volatile market. It allows you to take the guesswork out of market timing. Some months you will get more units if the price is lower, some months you will get fewer units if the price is higher.

Dollar Cost Averaging is less risky than investing a lump sum all at once. This strategy is particularly useful when investing in the equity markets where there is much more volatility than in bond or money markets. It ensures that you do not only invest when the market is high. People who try to time the market often tend to "buy high". Delaying a purchase until a mutual fund begins to show growth is almost a sure way to miss out on low prices.

It is important to note that dollar cost averaging does not eliminate risk. It does not ensure you a profit or protect you from losses in a declining market. When the markets go down the value of your account will decline but that is when you will be purchasing more units at a lower cost.

Some advantages of Dollar Cost Averaging:

- Convenient – you do not have to analyze the market since you are automatically investing each month
- Affordable – you can invest as little as \$25 month. The amount can be adjusted any time.
- Reduces Risk – smoothes out the movements of the market to reduce risk

You can dollar cost average by setting up a pre-authorized contribution from your bank account or by payroll deductions.

Dollar cost averaging by making monthly contributions allows you to "pay yourself first". Saving becomes a priority in your monthly budget rather than something you do with the money that is left over at the end of the month.

Monthly contributions can be made to RRSPs, RESPs, or non-registered accounts.

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