BMO Harris Financial Advisors

Dollar Cost Averaging

Make Investing a Habit

Dollar cost averaging helps take the emotion out of investing by providing the opportunity to use the market's ups and downs to your advantage.

The advantages of dollar cost averaging

Timing is everything, or so the saying goes. When it comes to timing the stock market, however, there's another adage worth remembering: "Easier said than done."

The concept of buying low and selling high sounds simple, but how do you know when an investment is at the best "low" price, or when it's at its peak—and what about all the bumps in between? That's why predicting the short-term ups and downs of the market is a difficult task, even for professional investors.

A better approach may be to consistently build your portfolio by adding to it on a regular basis—regardless of what's happening in the market. This time-tested approach is called dollar cost averaging (DCA).

Dollar cost averaging is a disciplined and consistent approach to investing. You invest a specific dollar amount at regular intervals, usually monthly. Since share prices fluctuate but your investment dollars remain constant, you will automatically buy more shares when prices are low and fewer shares when prices are high.

While investing regularly doesn't guarantee you'll make a profit or prevent a loss, over time dollar cost averaging can potentially lower your average cost per share. It can also help cushion the impact of wide price swings on your portfolio. To benefit from this simple strategy, however, you must purchase shares systematically, even during periods of falling prices.

Benefits of dollar cost averaging

- Discipline to invest consistently despite market ups and downs
- Potential to buy more shares when prices are low
- Takes market timing out of the investment decision
- Simplifies investing

Dollar cost averaging in action

To see why regular investing can be a smart investment strategy for retirement and other long-term goals, consider this hypothetical example. Let's suppose you invested $200 each month in a mutual fund for a period of five months in three different scenarios: a rising market, a falling market, and a fluctuating one.

Dollar Cost Averaging in a **RISING** Market

In a rising market, your $200 would buy fewer shares as the price per share increases.

Money Invested	Price per Share	Number of Shares	Average Price
$200	$10.00	20.0	$1,000 ÷ 87.7 = **$11.40** average cost per share
$200	$11.00	18.2	
$200	$11.50	17.4	
$200	$12.00	16.7	
$200	$13.00	15.4	
$1,000	**$11.50**	**87.7**	

These numbers are hypothetical and are used for illustrative purposes only. Actual results will vary.

Dollar Cost Averaging in a **DESCENDING** Market

In a falling market, that same $200 would buy more shares as the price per share decreases.

Money Invested	Price per Share	Number of Shares	Average Price
$200	$10.00	20.0	$1,000 ÷ 121 = **$8.26** average cost per share
$200	$9.00	22.2	
$200	$8.50	23.5	
$200	$7.00	28.6	
$200	$7.50	26.7	
$1,000	**$8.40**	**121**	

These numbers are hypothetical and are used for illustrative purposes only. Actual results will vary.

Dollar cost averaging in a fluctuating market

And when the market fluctuates, the number of shares your $200 buys will also fluctuate.

While each market scenario resulted in a different price per share and number of shares purchased, one thing is consistent. As the example illustrates, investing regularly through market ups and downs may help lower the overall cost of your investment—whether the market is rising, falling or something in between.

Dollar Cost Averaging in a **FLUCTUATING** Market

Money Invested	Investment	Offering Price	Number of Shares
Month 1	**$200**	$20	10
Month 2	**$200**	$25	8
Month 3	**$200**	$10	20
Month 4	**$200**	$15	13
Month 5	**$200**	$10	20

Average price per share = $20 + $25 + $10 +$15 + $20 divided by 5 = **$18**

Average cost per share = Total amount invested divided by total number of shares purchased. $1,000 divided by 71 shares = **$14.08**

These numbers are hypothetical and are used for illustrative purposes only. Actual results will vary.

Getting started

Dollar cost averaging doesn't require large amounts of money, but it does require discipline. You have to be willing to keep investing even during periods of falling prices. To decide if you would like to set up a dollar cost averaging program consider:

1. **How often you want to invest** (monthly, quarterly, annually)
2. **How much you want to invest** each period ($100, $500, $1,000, etc.)
3. **The source you'll use** to fund your investment (paycheck, checking account, savings, money market fund, etc.)

Whether you have a lump sum to invest or want to begin saving for a future goal, a regular investment program of dollar cost averaging can help you remain invested no matter what's happening in the market.

To learn more about dollar cost averaging and how it can help you make the most of your investment plan, contact your BMO Harris Financial Advisor.

Dollar-cost averaging does not assure a profit or protect against loss in declining markets. This type of plan involves continuous investment in securities, regardless of fluctuating price levels. Investors should consider their ability to continue investing during periods of low markets.