HANOVER ADVISORS

The Benefits of Dollar-cost Averaging

Dollar-cost averaging (DCA) is an investment strategy in which an investor makes regular purchases of an asset at a fixed interval (usually monthly) using the same dollar amount each time, regardless of the asset's current price. This means that when the asset's value decreases, the investor is purchasing more shares, and when the value increases, the investor is purchasing fewer shares. This decreases the risk that an investor might pay too much for an investment right before the market drops, and over time, the average cost per share will almost always be lower than the asset's average market price.

DCA works because over the long term, asset prices tend to rise. In the near term, they do not rise consistently, however, running short-term highs and lows. Research has consistently shown that investors who try to time these highs and lows generate worse returns. Implementing a DCA strategy removes the complicated guesswork involved in trying to time the market and allows an investor to begin putting their money to work immediately rather than waiting for the right time to buy. It also reduces the emotional component of investing. By committing to a methodical approach of investing the same amount each month, downturns will not be seen as a reason to panic and bail out, but rather an opportunity to acquire more shares at a lower price.

Consider the following example:

Investment Month	Amount Invested	Share Price	Shares Purchased
January	$200	$28	7.14
February	$200	$26	7.69
March	$200	$26	7.69
April	$200	$28	7.14
May	$200	$28	7.14
June	$200	$20	10
July	$200	$26	7.69
August	$200	$18	11.11
September	$200	$28	7.14
October	$200	$18	11.11
November	$200	$20	10
December	$200	$28	7.14
Totals:	**Amount Invested: $2,400**	**Average Share Price: $24.50**	**Shares Purchased: 101.1 Average Cost Per Share: $23.76**

If over the course of the year, the price of this asset fluctuated between $9 and $14, and an investor committed to a consistent dollar-cost averaging strategy, buying more shares when the price was down and fewer when the price was up, at the end of the year they would end up with a lower average cost for their shares than the average price of the asset. Of course, if the investor had perfectly timed their purchases when the price was low, like in August and October, or if the asset's price had consistently fallen, the results may have differed. However, dollar-cost averaging allows investors to secure a lower average cost over time, without relying on perfect timing or a consistent market direction.

Making periodic investments, regardless of what direction the market is moving, is an effective way to invest for the long term. It is a simple approach that can reduce much of the emotional fretting and complex guesswork that comes with trying to time the market and can help investors weather periods of volatility. It is also a practical way for investors to begin investing with small amounts of money. Some investors may think they need to wait until they have a large sum of money to invest all at once, but with dollar-cost averaging, investors can get their money into the market right away, benefitting from market growth while steadily building their portfolio with regular contributions over time.

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