

# Should You Dollar Cost Average?

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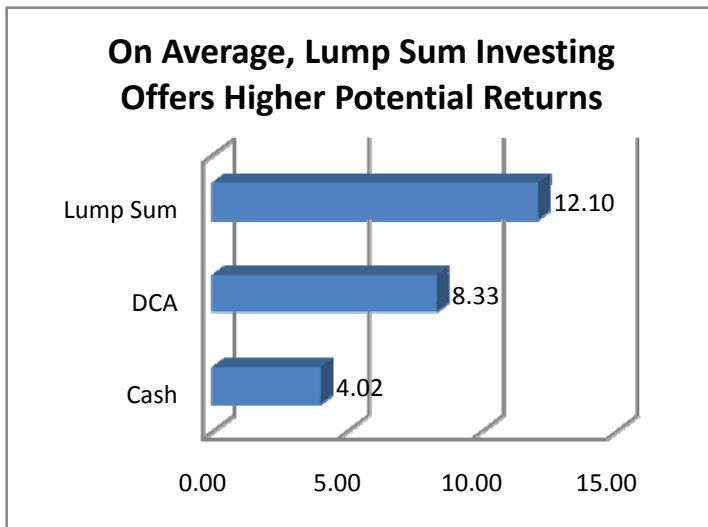
By definition, dollar cost averaging is investing a fixed dollar amount at regular intervals in time. How should you determine if dollar cost averaging is appropriate for you?

## How Beneficial is Dollar Cost Averaging to you, the investor?:

As you can see from *Display #1* shown below, since 1935 (through October 31, 2009), on average, an investor with a fixed amount to invest would have been best off investing the cash all at once (at the beginning of a 12-month period) as opposed to dollar cost averaging the same amount or leaving the assets in cash.

### *Display #1*

\*\* See Footnote on page 2



- When examining the average 12-month return over every rolling 12-month period since January 1, 1935, investing a fixed amount into the stock market (represented by the S&P 500 Index) at the beginning of the first month, yielded on average, just under 4% more than dollar cost averaging the same amount into the stock market in 12 equal monthly installments (over the same rolling 12-month periods of time).
- Remaining in cash (represented by 3-month t-bill returns) over the same time periods would have on average, yielded just 4%.

- As illustrated in *Display #2*, utilizing the same assumptions as in *Display #1*, historically, lump sum investing resulted in stronger returns in about two-thirds of the 898 12-month rolling market periods examined.

- More specifically, lump sum investing, on average, tended to outperform dollar cost averaging during the best performing one-third and middle one-third of market periods. However, this also means that during the worst one-third of all 12-month market periods, dollar cost averaging did prove to outperform lump sum investing.

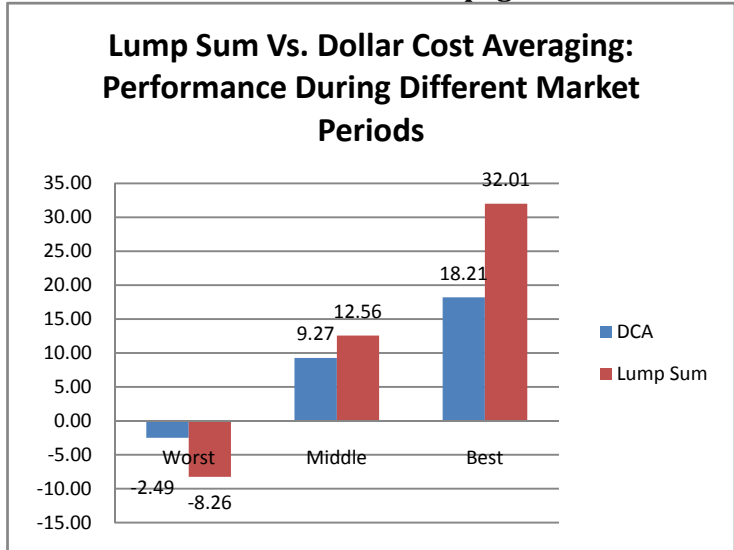
Display #2

\*\*See Footnote at the bottom of this page

**What Factors Should You Consider to Determine if Dollar Cost Averaging is the Appropriate Method For You?:**

Despite the historical evidence, we don't have a crystal ball for the future. Below are other factors to consider in making this decision:

- **Current Market Conditions** – if we are in a more volatile, unpredictable market with less attractive asset valuations, it might be prudent to consider dollar cost averaging to time-diversify and reduce potential short-term portfolio volatility.
- **Your own risk tolerance** – if you consider yourself risk averse and find yourself losing sleep over losing money, dollar cost averaging might ease your concern about putting a large amount of cash to work, while still allowing you gradual access to the market.
- **Regret Risk** – Dollar cost averaging trade-off between potential gain given up during normal markets and the benefit of protection through down markets.
- **What proportion of your assets are you putting to work in the market** – if you are adding \$1 million of cash to a \$2 million portfolio, you are more likely to consider dollar cost averaging this cash into the portfolio than if you are adding \$100k of cash to a \$2 million portfolio.



Should you choose to dollar cost average into the market, you should consider a time horizon and the number of installments to deploy this strategy. Studies show that dollar cost averaging is most effective over a 6 month period or less. However, it appears that the benefit of dollar cost averaging begins to disappear if extended beyond 18 months, so dollar cost averaging beyond this time frame may dilute any potential benefits. Investors who want to diversify their investments over a longer time horizon (i.e. over one year) should consider making quarterly investments over monthly investments. *Dollar cost averaging may not be appropriate for you or any other particular investor. For this reason it is important that you discuss and consider all your investment options with your advisor prior to developing and implementing any investment plan.*

<sup>1</sup> Data based on analysis paid for by RegentAtlantic LLC. This data has not been prepared by an independent source. This data is provided only to show the potential impact of lump sum investing versus dollar cost averaging and is not intended to reflect the performance of any RegentAtlantic client account or composite of accounts.

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