

Dollar cost averaging is an investment technique that involves investing a set amount of money into a particular fund or portfolio at regular intervals (e.g. weekly, monthly, and quarterly). This is intended to reduce the risk exposure associated with making a single large purchase, as you are not trying to pick the lows or highs of the market.

By spreading your investment over a number of periods you should be purchasing each part of the overall investment at different prices. The change in the purchase price over each period will determine the amount of shares/units you will be able to buy. The lower the price, the more you will be able to buy, and vice versa.

Dollar cost averaging can also be used as an ideal investment strategy for people who do not have a large lump sum to invest, but do have a steady regular income.

Most people are already benefiting from dollar cost averaging without even knowing about it. Your superannuation contributions are paid at least quarterly and in most cases more often, so your contributions are effectively being dollar cost averaged into your superannuation fund.

Provided below is an example of the benefits associated with dollar cost averaging into an investment whose market value falls and then recovers to its original value. A monthly investment amount of \$1,000 is used in this example.

Month	Amount Invested	Market Price	Units Purchased
1	\$1,000	\$20	50
2	\$1,000	\$15	66
3	\$1,000	\$10	100
4	\$1,000	\$15	66
5	\$1,000	\$20	50
Total	\$5,000		332

As can be seen in the example above, using dollar cost averaging will allow you to purchase a total of 322 units over the 5 month period at an average purchase price of \$15.06. The total value of the investment at the end of the period has grown to \$6,440, even though the market price never went higher than the starting price. If the entire investment was purchased at commencement it will only purchase 300 units and have an average purchase price of \$20.00.

Implementing this investment technique may result in you having to pay more in brokerage costs, however it will reduce the impact of your investment losing value shortly after making the investment.

We recommend that you contact your financial planner to determine if dollar cost averaging through a regular savings plan, salary sacrifice arrangement or additional after-tax super contributions should be used as part of your personal investment strategy.