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Dollar-cost averaging: A strategy for market ups and downs

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The optimal time to invest is sometimes unclear. But dollar-cost averaging helps remove the guesswork.

Dollar-cost averaging is the practice of investing a fixed dollar amount at regular intervals, and it can be an effective strategy for investors — especially during periods of market ups and downs. Having a disciplined strategy in place can help investors avoid emotional reactions to temporary market movements. And over time, the average cost per share will usually be lower than its average market price. Here's how it works:

Investment date	Amount invested ($)	Share price ($)	# shares purchased
January	100	14.00	7.143
February	100	13.00	7.692
March	100	13.00	7.692
April	100	14.00	7.143
May	100	14.00	7.143
June	100	10.00	10.000
July	100	13.00	7.692
August	100	9.00	11.111
September	100	14.00	7.143
October	100	9.00	11.111
November	100	10.00	10.000
December	100	14.00	7.143
Totals:	Amount invested: **$1,200**	Average price: **$12.25**	Shares purchased: **101.013** Average cost per share: **$11.88**

The average share price during this year was $12.25, but the average share cost was only $11.88. This is because investors could purchase more shares for the same amount of money during market dips.

This illustration is hypothetical and is not meant to represent any specific investment or to imply any guaranteed rate of return.

To put it simply: More shares are purchased when prices are low, and fewer shares are bought when prices are high. As a result, dollar-cost averaging may lower your overall cost per share while you accumulate more assets.

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Bottom line

Investors who invest only when the market is up are always buying high. By sitting on the sidelines when the market declines, investors fail to benefit from purchasing stocks when they're effectively on sale. Adopting dollar-cost averaging can help investors maintain discipline and usually results in a lower average cost per share.

Dollar-cost averaging and asset allocation do not assure a profit or protect against loss. Dollar-cost averaging is a method of investing that helps reduce the risks of market timing by investing a fixed amount at regular intervals. When prices are low, your investment purchases more shares. When prices rise, you purchase fewer shares. Over time, the average cost of your shares will usually be lower than the average price of those shares. It does not assure a profit or protect against losses in a declining market. However, over longer periods of time it can be an effective means of accumulating shares. Investors should consider their ability to continue investing through periods of low market prices.

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