October Was a Good Lesson for Jittery Investors

Remembering the benefits of dollar-cost-averaging and why it makes sense

October is usually one of the worst months for stocks, but October 2022 is shaping up to be the best month on record since 1976.

- Did you sell your equity positions at the end of September because you could no longer stomach this year's market volatility and declines?
- Are you worried that maybe you should not invest now because we might be at a market peak?
- Or are you still hoping to time the markets' ups and downs?

If you answered yes to any of those questions, maybe it's time for you to re-evaluate dollar-cost-averaging.

Dollar-Cost-Averaging Explained

Dollar-cost-averaging (DCA for short) isn't new and it isn't exciting, but many a millionaire next door has proven its success. The principal behind it is this: You put the same amount of money into the same investment on the same day each month. That's it.

Those months when the investment's price goes up, your set amount does not buy very many shares. But when the investment's price dips, you get to buy more shares at a cheaper price. Guess what? When the price goes back up, all those shares you bought cheaply make you some money. Those shares you bought when the price was high look good, too. There are three main reasons to invest this way.

Three Reasons Why DCA Makes Sense

First, It takes the guesswork out of trying to predict what the stock market is going to do. It's easy to lose money seeking to time the market. Even professional investors can be pretty bad at it. As long as you feel good about the investment you buy, and you know that the fundamentals are right, you shouldn't care what the stock market is doing day to day.

In fact, you celebrate when the market is down and you buy, because you get to buy more shares of a company or mutual fund you think has great long-term prospects.

And you celebrate again when the market rallies because all your shares are more highly valued. You win either way. Also, you won't have to put so much time and energy into investing. You can focus on your career and family rather than obsess over your portfolio.

Second, it creates a disciplined approach to building wealth. You are now on a path to save and invest regularly, building wealth one month at a time. Yes, we have all read about those hot stocks that made someone rich overnight. But for most of us, it's going to take a working lifetime to accumulate our wealth.

Third, you can you can do this for as little as $100 per month. In fact some mutual fund companies let you set up DCA for as low as $50 per month. You don't need thousands of dollars to get started or to continue your dollar cost averaging plan. So, no excuses.

A Few DCA To-Dos

1. Do your research. Make sure you are picking a stock or mutual fund (you can use DCA for either one) that you feel has strong long-term growth potential. Talk to your financial advisor to get investment ideas.
2. Start with a monthly amount that won't break your bank. This is money you won't miss on a monthly basis. Ask your advisor or favorite mutual fund company for their minimum DCA amount.
3. Do work up to a DCA approach into multiple stocks/mutual funds so that you are diversified. If you are doing a DCA into a mutual fund, you have diversification built in, but you are likely concentrated in a single style (small-cap growth or large-cap value, for example). But if you are buying an individual stock, you want to eventually own five or more to reduce your dependence on one performer.
4. Commit to a DCA program of at least 12 months. It takes time to build wealth and see the results of your efforts.

A Few DCA Don'ts

1. Don't wait for the price to go up or down. The key is consistency.
2. Don't vary the amount based on how much is in your savings account that day, either. Set it up for the same day, same amount, same stock – good times and bad.
3. Don't stop it when the market takes a nosedive. If you still believe in the investment, keep investing. Remember, in a down market you are buying more shares of a good investment, cheaply.

The DCA approach is about building wealth steadily, consistently and with discipline over time. It's about creating and strengthening good money behavior. When you do this for 10+ years and see your accumulated balance, you won't care that you missed the best day in the market in 2022.