

Dollar Cost Averaging Stands the Test of Time

Dollar cost averaging is a simple investment technique. You invest the same amount of money in shares of a particular **stock** or **mutual fund**, for example, each month (or other interval), whether the shares are up or down in price. Regular investing, rather than the actual dollar amount invested, is the critical factor. Over time, you may achieve a **lower average cost per share** compared to the **average price per share**; in addition, you will establish a *disciplined* investment approach.

Dollar cost averaging can be accomplished with modest, as well as substantial, sums of money. In the case of mutual funds, it is common to find varying investment requirements. Some funds set minimal initial and subsequent investments as low as \$50, while others require a starting base of \$1,000 or more.

Probably the easiest and most practical way to get in the practice of dollar cost averaging is to establish an **automatic bank transfer** between a mutual fund and your bank. The same amount of money is withdrawn on a specified date every month and transferred to the fund of your choice.

To see how dollar cost averaging can take advantage of fluctuating market prices, look at the chart below which shows hypothetical investments of \$100 per month, with share prices varying between \$5 and \$10 over the 12-month period.

Month	Hypothetical Investment	Approximate Market Price Per Share	No. of Shares Purchased
1	\$100	\$10	10.0
2	\$100	8	12.5
3	\$100	5	20.0
4	\$100	8	12.5
5	\$100	7	14.3
6	\$100	9	11.1

7	\$100	10	10.0
8	\$100	7	14.3
9	\$100	5	20.0
10	\$100	7	14.3
11	\$100	8	12.5
12	\$100	9	11.1
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Totals:	\$1,200	\$93	162.6

Average market price per share: \$7.75 (\$93/12)

Average cost per share: \$7.38 (\$1,200/162.6)

With regular periodic investments, you get more shares for the same amount of investment dollars when the price is low. In that case, your **average cost per share** will always be *lower* than the **average share offering price** over the period and, if share prices eventually rise, your average cost per share will also be *lower* than the **current market cost per share**.

Although dollar cost averaging is hardly a new technique, investors may find that it works particularly well in today's unpredictable investment climate. For long-term investors, it can provide a disciplined approach to the purchase of individual **stocks, mutual funds, or variable annuities**.

When investing, always keep in mind that investment return and principal value will fluctuate due to market conditions. Dollar cost averaging cannot assure a profit or protect against loss in declining markets. When shares are redeemed, they may be worth more or less than their original cost. Finally, you should consider your financial and emotional ability to continue the plan into the future.

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