A Lesson From the Past; What $25 a Month Can Result in Regardless of Market Volatility

The Power of “Dollar Cost Averaging.”

By Kevin Bayani

Have you ever thought to yourself, “If I could go back ten years I would…?” Hindsight is 20/20.

In the financial world nobody can predict the future, but we can all look back and learn from our past. When we examine for instance the past ten years we are reminded of some of the worst market downturns and the best market rallies. Although somewhat counterintuitive, those who stayed invested during the crash of 2008 were rewarded during the rallies that followed.

So what can we learn from this time in history? What can we do today to invest with more confidence and benefit from regardless of market volatility?

Dollar Cost Averaging is a strategy designed to reduce volatility by lessening the risk of investing a large amount in a single investment at the wrong time. It consists of buying fixed dollar amounts of a particular investment on a regular schedule. Typically used for mutual fund investing, individuals make their purchases regardless of price. As the market fluctuates and share prices rise and fall, you keep investing. The result is purchasing more shares when prices are low and fewer shares when prices are high. Eventually, the average cost per share will become less and less.

Implementing this strategy has helped me personally. Prior to becoming an advisor, I sat with one to discuss my financial goals. Like most people I was concerned about the risks associated with investing, and as a recent college graduate I didn’t think I had enough money to start.

That’s when I first learned about Dollar Cost Averaging. I started investing $50 a month into two mutual funds. It was something simple and affordable. What I thought would be a big deal led me to have a “set it and forget it” mindset. After a year I was happy with what I had saved. Another year passed and not only was I impressed with the amount I put away, but I was starting to see growth. I still use this method today with larger contributions.

Investors of all kinds, with diverse challenges and goals, can benefit from this strategy. Particularly applying Dollar Cost Averaging to mutual fund investing opens the door for new investors. It’s a great way to start for those who, like me, know that they want to save but are unsure how.

Mutual fund investing allows you to purchase fixed dollar amounts as opposed to fixed share amounts. Many mutual fund companies have lowered, if not eliminated, their minimum requirements allowing people to start with just $10 or $20 per month.

The latter scenario provokes me to ask again, if I could go back ten years could I have put away at least $25 per month? I could have, and wish I did.

When I ran the numbers to find out where I would be if I started Dollar Cost Averaging into a mutual fund ten years ago, my $25 per month would have added up to $3,502 given only a three percent annual growth rate. I would have had to invest $2,595.52 a decade ago in a mutual fund with the same growth rate to achieve the same result. Provided in this small example you can see how Dollar Cost Averaging can help those who don’t have a large amount to invest at once.

If you have a particular goal in mind or want to start investing, Dollar Cost Averaging can get you on the right path.

For a free consultation please contact me at (201) 489-1118 or by e-mail at kbayani@ae.cadaretgrant.com.

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