THE MAGIC OF DOLLAR COST AVERAGING

What is Dollar-Cost Averaging?

Dollar-cost averaging is the practice of putting the same amount of money in the same investment option consistently, regardless of the market price of that investment. This can be beneficial because it allows you to automatically buy more shares when prices are lower and fewer shares when prices are higher. Over time this tends to reduce the average cost of the shares you purchase.

How Dollar-Cost Averaging Can Benefit Investors

Here's an example of two investors who decide to purchase the same XYZ Stock Option:

- Investor A invests $5,000 in a lump sum in XYZ Stock Option in January.
- Investor B uses dollar-cost averaging to invest $1,000 per month over five months – from January through May.

The chart below shows how the dollar-cost averaging method, in this case, resulted in a lower cost per share for Investor B.

Investor	Purchase Date	$ Invested	Price Per Share	# of Shares Purchased
Investor A	January 15	$5,000	$10	500
Investor A	February 15	$0	N/A	N/A
Investor A	March 15	$0	N/A	N/A
Investor A	April 15	$0	N/A	N/A
Investor A	May 15	$0	N/A	N/A
Totals		$5,000	$10	500

Investor	Purchase Date	$ Invested	Price Per Share	# of Shares Purchased
Investor B	January 15	$1,000	$10	100
Investor B	February 15	$1,000	$ 6	166.7
Investor B	March 15	$1,000	$ 4	250
Investor B	April 15	$1,000	$ 7	142.9
Investor B	May 15	$1,000	$12	83.3
Totals		$5,000	$7.80 (average)	742.9

What Happened?

Investor A's price was set on January 15 with the purchase of 500 shares at $10 per share. But because Investor B was buying over the course of five months (and share prices go up and down over time), more shares were purchased when the investment was priced lower and fewer shares when the price was higher.

Using Dollar-Cost Averaging in Your Retirement Plan Account

When contributing to a retirement plan account you automatically use dollar-cost averaging. That's because contributions are deducted from your paycheck and invested directly into the combination of investments you've selected – regardless of the prices of those investments. So you buy fewer shares when prices are higher and more shares when prices are lower.

Dollar-Cost Averaging – Important Considerations

- Dollar-cost averaging can be an effective “automatic investment strategy,” especially for those who find it challenging to save consistently over time.
- Dollar-cost averaging and other periodic investment plans do not guarantee a profit and do not protect against loss in declining markets.
- Dollar-cost averaging involves continuous investment in securities, regardless of fluctuating price levels of such securities – and you should consider your financial ability to continue your purchases through periods of low price levels.
- **In “up” markets;** When you use dollar-cost averaging, if the prices of the investments you’ve chosen go up, the value of your account should grow, since you purchased more shares when prices were lower.
- **In “down” markets:** Dollar-cost averaging can be a valuable tool, because the lower prices give you the opportunity to buy more shares – at “sale” prices.