



# Client Fact Sheet

July 2009



## Understanding Dollar Cost Averaging

Dollar cost averaging may help take some of the risk out of investing in fluctuating markets by removing timing risk.

### What is timing risk?

Timing risk is the risk that in attempting to time market entry or exit, you will be exposed to increased short-term volatility, and may end up buying in at the top, or selling out at the bottom.

The principle of dollar cost averaging is that you invest a set amount on a regular basis, no matter whether the market is up or down.

When the market is up, your set amount may purchase fewer units, but your existing holding may be worth more. When the market is down, your existing holding may be worth less, but new units may be cheaper to buy.

### How it works

Assume you invested \$200 per month into an investment where the unit price fluctuates from month to month.

Month	Amount Invested	Unit Price	Unit
January	\$200	\$0.50	400
February	\$200	\$0.48	416
March	\$200	\$0.41	487
April	\$200	\$0.38	526
May	\$200	\$0.33	606
June	\$200	\$0.37	540
July	\$200	\$0.44	454
August	\$200	\$0.49	408
September	\$200	\$0.55	363
October	\$200	\$0.61	327
November	\$200	\$0.57	350
December	\$200	\$0.53	377
<b>TOTAL</b>	<b>\$2,400</b>		<b>5,254</b>

## Results:

Using the dollar cost averaging strategy, a total of 5,254 units were purchased, with an average unit cost of \$0.4568 (\$2,400/5,254 units). This has a value at December of \$2,784.

This compares to investing the full \$2,400 at commencement when the unit price was \$0.50, to receive 4,800 units. The value of those units in December is \$2,544.

Even though the market has risen marginally above the initial unit price in January, with dollar cost averaging \$200 per month, the investment is worth \$240 (\$2,784 - \$2,544) more than the upfront money option.

Dollar cost averaging does not guarantee a profit. However, with a sensible and long-term investment approach, dollar cost averaging can smooth out the market's ups and downs and may help to reduce downside risk.

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