WERNER FINANCIAL
CUSTOMIZED INVESTMENT SOLUTIONS

DOLLAR COST AVERAGING

What is Dollar Cost Averaging?

Dollar cost averaging (DCA) involves consistently investing a fixed amount of money on a routine scheduled basis, without concern about a specific attempt at timing of the price of shares. This method helps make investing a habit, improves financial efficiency, and reduces the stress of trying to time the market. For example, imagine investing $100 on the first day of every month. If the market is positive, the $100 invested will purchase fewer shares, but if the market is negative, the money invested will be able to purchase more shares. Over time, this approach has proven to lower help acquire shares at a lower average cost per share compared to investing all your shares at once (lump sum) at a potentially higher price.

How Does Dollar Cost Averaging Work?

By consistently investing the same amount of money at regular intervals, you automate the process of buying more shares when the prices are low and fewer shares when the prices are high. This approach allows you to invest regularly and take advantage of market fluctuations. DCA is a strategy that promotes financial consistency and minimizes stress while using the power of compounding over time. In the chart below, you will find a hypothetical investing plan for Dollar Cost Averaging.

	Amount	Share Price	Shares Owned
Month 1	$100	$10	10
Month 2	$100	$5	20
Month 3	$100	$2	50
Month 4	$100	$5	20
Month 5	$100	$4	25

Based on the example above, after 5 months, you will have invested $500, and own 125 shares.

On the other hand, if you invested $500 in Month 1 instead of spreading it out in Months 2-5, you would only own 50 shares ($100 at $10/share price). By aiming to time the market, you potentially miss the opportunity to buy those shares as the price fluctuates.

What are the Benefits of Dollar Cost Averaging?

The structured nature of Dollar Cost Averaging with you consistently investing a fixed amount at regular intervals, provides several benefits. It is important to eliminate the need to time the market, therefore reducing the risk associated with trying to make investment decisions based on market fluctuations. It also mitigates the risk of not having the necessary funds available when it's time to invest because it is a fixed amount from your paycheck or an investment account. Overall, it offers an easy, disciplined, and stress-free way to build an investment portfolio over time.

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