Another look at dollar cost averaging

Occasionally, a study is published that concludes lump-sum investing beats dollar-cost averaging. Statistically, the stock market is more likely to rise than fall. The more that's invested, the better you'll do over time.

Those analyses may well be correct. But they miss the point. The value of dollar-cost averaging lies elsewhere. And it's misunderstood.

Dollar-cost averaging is a systematic way to invest. You commit the same amount on a scheduled basis. For example, if your Registered Retirement Savings Plan (RRSP) limit for the year is $6,000, you might have $500 withdrawn from your chequing account each month and put into one or more funds.

By investing a flat amount, you automatically buy more units when markets are down and fewer units when markets are high. That avoids the "cycle of greed and fear" that often drives us to buy and sell at exactly the wrong times.

The value of dollar-cost averaging has little to do with maximizing returns. It makes it easy and affordable to invest in the first place, to continue investing, and to stay invested.

Automatic withdrawals or payroll deductions are also one of the easiest ways to maximize RRSP contributions. Within a few months, most people don't miss money that doesn't pass through their hands.

As well, dollar-cost averaging is a defensive strategy aimed at preventing losses from undisciplined market timing and ill-advised decisions based on emotion or short-term market noise. It's a slow, steady, and reliable way to build wealth.

Give me a call today if you would like more information.

Insightful Wealth Group

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