

## Dollar Cost Averaging in a Down Market

*This investment technique may help you take advantage of the downturn.*

**Buying low and selling high is the oldest stock market adage.** How does one put it into practice? Dollar cost averaging may give you a method to capture lower prices today and come out ahead tomorrow.

**How it works.** Dollar cost averaging is a long-term investment strategy. It means investing in small increments. Through scheduled investments of as little as \$50 or \$100 per month, you buy investment shares over time, as opposed to pouring a big lump sum into the market. The method is often recommended to younger investors with longer time horizons, as well as investors who don't yet have great wealth.

**Why it is worthwhile in a bear market.** First of all, when the market drops, the investor practicing dollar cost averaging isn't hurt as much as the lump sum investor, as the lump sum investor typically holds more shares of the declining investment.

Second, a stock market downturn produces a kind of "clearance sale" environment. Picture Wall Street as a department store, with signs everywhere announcing 20% or 30% off. You have a chance to buy into some top-quality companies "on sale." As a consequence of dollar cost averaging, you can now buy in at a lower price, obtaining more shares for your money.

**So what happens when the market recovers?** As the market rebounds, you can pat yourself on the back. You were able to buy big at the bottom of the market; as the market rises, you will have a lower cost basis and you can enjoy the associated gains. All the while, you continue contributing. (Of course, the fact is that a lump sum investor may profit even more from a market rebound, as he or she may hold comparatively more shares than you.)

**Perhaps most importantly, you stay invested.** Dollar cost averaging gives you a regular, passive investment strategy as opposed to market timing. In a volatile market, the active investor can quickly become a frustrated casualty of his or her impulses and foolishly "abandon ship."

You might call this a tortoise-and-the-hare analogy. The active investor sprinting all over the place for spectacular gains is the hare; you, through dollar cost averaging, emulate the tortoise.

**Learn more.** How are you positioning yourself to take advantage of the markets? This is a good time to meet with a financial representative to review or rebalance your portfolio and look toward your long-term objectives. If you're not currently practicing dollar cost averaging, you may want to talk about the concept.

There is no guarantee that Dollar Cost Averaging will result in a profit or protect against a loss in a declining market.

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