

Are you investing inconsistently ... or not at all? Inconsistent investment can sabotage your retirement savings efforts. There's a way to avoid that problem: a strategy called *Dollar Cost Averaging*.

By investing equal dollar amounts on a regular monthly basis, you can plan to build wealth in a way you can afford today.

DCA to the rescue. Many people think they can't afford to invest – their budgets won't allow them to do so. DCA makes it easier. Arranging a monthly salary deferral of even \$100 into your 401(k), for example, can help you plan to build wealth in a tax-advantaged way.

Remember, you won't retire on the dollars you put aside today for retirement; you'll retire on the assets accumulated from those early dollars as a result of investment and compounding. Most retirement accounts feature tax-deferred contributions and tax-deferred growth – why should you wait to take consistent advantage of that?

Look at it this way: you can't make retroactive contributions to a 401(k), so each dollar you didn't contribute last year is an opportunity you've lost forever. Not to mention the opportunity for tax-deferred growth of those assets.

That's one compelling reason to adopt the DCA approach.

Additionally, DCA ensures a constant flow of new money into the retirement account. That factor alone may help you take advantage of current market conditions.

The DCA strategy is designed to lower cost per share. When you practice Dollar Cost Averaging, you buy more shares when prices are low and fewer shares when prices are high. So with time, you may end up with a lower overall cost for shares purchased.

In last year's market downturn, there were some great buys – quality companies whose share prices had fallen to amazing lows. Through DCA, investors had a way to exploit this buying opportunity and pick up more shares. For

The DCA Way

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example, on February 20, 2009, you could have picked up 107 shares of General Electric for \$1,000. A year earlier, the same \$1K would have bought you 29 shares.¹

In the downturn, the DCA strategy by no means guaranteed a great return in the future – but it did offer investors a chance to position their assets for the market rebound. And so far, the market has rebounded significantly.

Speaking of market downturns and rebounds, Ibbotson Associates did some research and found that a hypothetical investor who would have invested \$100 a month in Wall Street for 30 years starting in September 1929 would have seen that total investment of \$36,000 grow into a \$411,000 nest egg by September 1959.² Yes, the crash of 1929 was an extraordinary circumstance – but didn't the Great Recession feel pretty extraordinary to you? This is a good argument for DCA for the long-run stock market investor.

The DCA strategy makes sense for many. Right now, many Americans would be hard-pressed to come up with a lump sum of say, \$4,000 or \$10,000 to invest. DCA allows people to contribute equivalent amounts toward retirement savings a little at a time.

The really great thing about it is how “automatic” it all is. By arranging, say, regular salary deferrals into a employer-sponsored retirement plan or regular monthly contributions to an IRA, you can go out and live your life and simply get that quarterly statement showing your ongoing contributions to the account. It is “off your plate” but never neglected.

Are you saving for the future using a Dollar Cost Averaging method? Talk to a financial professional today and see how convenient it can be for you. You should also consider your ability to continue purchases throughout periods of both high and low prices due to fluctuating markets.



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Citations.

¹ portfolio.com/views/blogs/market-movers/2009/02/20/why-dollar-cost-averaging-makes-sense/ [2/20/09]

² online.wsj.com/article/SB123696727736421823.html [3/16/09]