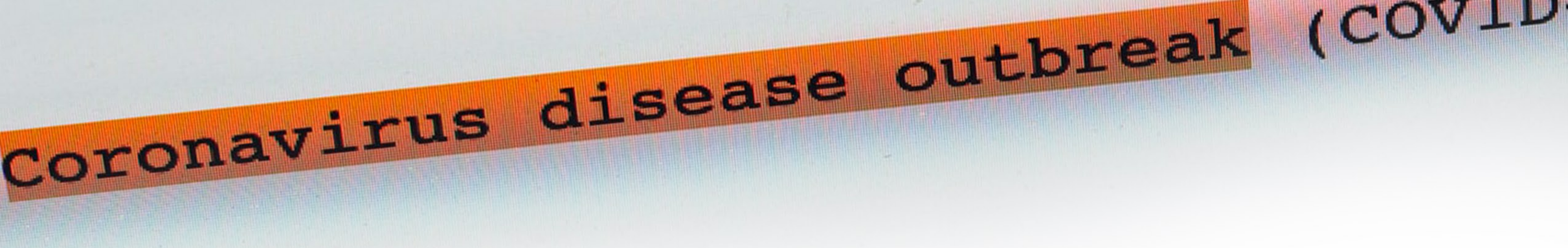

THE CORONAVIRUS AND DOLLAR-COST AVERAGING

Smart investors don’t try to time the market for long-term success

Investors have been whipsawed during late February and early March. Consider the performance of the Dow Jones Industrial Average from February 27th through March 11th of 2020. Investors saw:
• The three largest-one-day-losses in history – February 27th, March 9th and March 11th
• The three largest-one-day-point-gains in history – March 2nd, March 4th and March 10th
What are the chances that investors timed those six days perfectly? Pretty slim. The smarter investors will implement a process called dollar-cost averaging, not market timing, for long-term financial success.

DOLLAR-COST AVERAGING

Dollar-cost averaging is not new and exciting, but many a millionaire next door has proven its success.

The principal behind it is this: You put the same amount of money into the same investment on the same day each month. Those months when the investment’s price goes up, your set amount does not buy very many shares. But when the investment’s price dips, you get to buy more shares at a cheaper price.

Guess what? When the price goes back up, all those shares you bought cheaply make you some money. Those shares you bought when the price was high look good, too. There are a few reasons to invest this way.

REASON #1

It takes the guesswork out of trying to predict what the stock market is going to do. It’s easy to lose money seeking to time the market. In fact, it’s almost guaranteed. Even professional investors can be pretty bad at it. As long as you feel good about the investment you buy, and you know that the fundamentals are right, you shouldn’t care what the stock market is doing day to day.

In fact, you celebrate when the market is down and you buy, because you get to buy more shares of an investment that you think has great long-term prospects. And you celebrate again when the market rallies because all your shares are more highly valued. You win either way. Also, you won’t have to put so much time and energy into investing. You can focus on your family rather than obsess over your portfolio.

REASON #2

It creates a disciplined approach to building wealth. You are now on a path to save and invest regularly, building wealth one month at a time. Yes, we have all read about those hot stocks that made someone rich overnight. But for most of us, it’s going to take a working lifetime to accumulate our wealth.

REASON #3

You can do this for as little as $100 per month. In fact some mutual fund companies set up a DCA for as low as $50 per month. You don't need thousands of dollars to get started or to continue your dollar cost averaging plan. So, no excuses.

SOME THINGS TO DO

First, make sure you do your research. Make sure you are picking an investment that you feel has strong long-term growth potential. Go online and read annual reports and analysts' reports. Dig through historical financials and understand what you're buying and why.

Second, start with a monthly amount that won't break your bank. This is money you won't miss on a monthly basis.

Third, do work up to a DCA approach into multiple sectors and industries. If you are doing a DCA into a mutual fund, you have diversification built in. But if you are buying an individual stock, you want to eventually own five or more to reduce your dependence on one performer.

Fourth, commit to a DCA program of at least 12 months. It takes time to build wealth and see the results of your efforts.

SOME THINGS TO NOT DO

Don't wait for the price to go up or down. The key is consistency.

Don't vary the amount based on how much is in your savings account that day, either. Set it up for the same day, same amount, same investment – good times and bad.

Don't stop it when the market takes a nosedive. If you still believe in the investment, keep investing. Remember, in a down market you are buying more shares of a good investment, cheaply.

There are some market pundits who say dollar cost averaging is dead. They show charts and graphs proving that if you used a DCA over a certain period, instead of putting a lump sum into the market on a certain day, you now have less money. If you started in mid-November 2007 through mid-November 2012, they say, you likely would not have had much of an annual return. That five-year span contained a long bear market.

The DCA approach is about building wealth steadily, consistently and with discipline over time. It's about creating and strengthening good money behavior. When you do this for 10 years and see your accumulated balance, you won't care that you missed timing the best days in the market in 2020.

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