

# Alan Unplugged



## DOLLAR COST AVERAGING

Congratulations Alan and Barbara, you've each made the commitment to invest \$100 a month straight out of your bank account into your investment portfolio. All the books on investing that you've read will tell you this is a good idea, and you didn't even miss the money. Now, if only the markets would fall! That's right, no typo. If one makes the fairly safe assumption that markets climb over the long-term, the best they can do for you during this accumulation phase of your investing life is fall.

Consider the following three scenarios, and pick which one you would prefer. In each case, \$1200 is invested annually for 10 years. Scenario #1 is utopia, a steadily rising market. What more could a person ask for. A 100% gain in the market over 10 years. Alan says sign me up for this one! Scenario #2 is realistic, a choppy market that goes up and down, however, over the longer term, it goes up. Another 100% gain over 10 years. Scenario #3 is brutal. Five years straight down, followed by five years straight up. Ten years later the market is right back to where it started. Zero gain in the market. Barbara, being less sophisticated when it comes to money matters than Alan, picks this one.

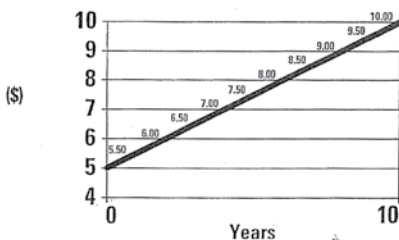
**Here are the results:**

Scenario	#1	#2	#3
Market Gain	100%	100%	0%
Total Value	\$17,251	\$22,062	\$25,459
Capital Gain	\$5251	\$10,062	\$13,459

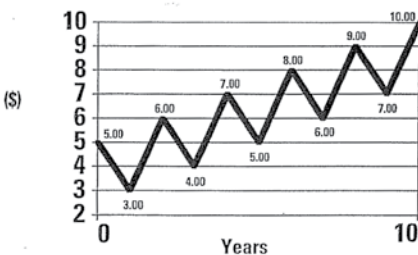
By far, the best scenario is #3, a falling market followed by a rising market. Why is that? The reason is quite simple. **During the early years, the falling market allows you to buy more and more units at cheaper and cheaper prices. When the market begins to rise, each one of those purchases compounds at a higher rate of return than purchases made in a steadily climbing market.** Call scenario #1 the law of diminishing returns. If you are investing regularly, embrace market declines as opportunities to improve returns. Alan really needs to start listening to Barbara more often.

*Alan*

### 1) Dollar Cost Averaging Steadily Rising Market



### 2) Dollar Cost Averaging Fluctuating Market



### 3) Dollar Cost Averaging Drops and Returns to Initial Market Price

