



# Dollar Cost Averaging

**Y**ou may have heard it said that investment success results from *time in the market, not timing the market.* While buying low and selling high is ideal, it is nearly impossible to predict exactly when the market will rise or fall. That's why many long-term investors utilize dollar cost averaging, the practice of investing a set amount of money in the same investment at regular intervals. Dollar cost averaging helps to minimize the effect of market volatility on an investment portfolio, and is widely accepted as a sound long-term investment strategy in both rising and falling markets.

With dollar cost averaging, you may buy low or high. When prices are low, your investment will purchase more shares—shares that can grow in value when the market recovers. Of course when prices rise, fewer shares will be purchased. But over time, the average amount paid for each share (average cost per share) will usually be less than the average price per share.

Since dollar cost averaging requires identical investments to be made at pre-determined times, the strategy eliminates the decision of *when* to invest. Also, by developing a regular schedule for investment contributions, you are more likely to stick to the discipline of your investment plan.

Dollar cost averaging enables you to begin a savings program with a series of small contributions. The strategy is best suited to long-term investors with the fortitude to keep investing when the market falls, and to resist selling when the market rises. Dollar cost averaging does not ensure a profit, nor does it protect from loss during declining markets.

## How Does Dollar Cost Averaging Work in a Declining Market?

Let's say you decide to make a monthly investment of \$400 for a period of six months. During that time, share prices are falling: \$20, \$18, \$18, \$15, \$14, \$14. At the end of six months, you have invested \$2400 and you own 148.24 shares. While the average price per share is \$16.50, your average cost per share is only \$16.19.

### Investing \$400 each month in a falling market

<u>Month Bought</u>	<u>Investment</u>	<u>Price Per Share</u>	<u>Shares</u>
1	\$400	\$20	20.00
2	\$400	\$18	22.22
3	\$400	\$18	22.22
4	\$400	\$15	26.66
5	\$400	\$14	28.57
6	\$400	\$14	28.57
<b>Totals:</b>	<b>\$2400</b>	<b>\$16.50 (avg.)</b>	<b>148.24</b>

*Average cost per share: **\$16.19***  
*(Total investment divided by number of shares bought)*

*Average price per share: **\$16.50***  
*(Sum of share price divided by the number of contributions)*

*(continued on reverse)*

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Now that may not seem like such good news considering the current price per share is \$14. But if you had invested the entire \$2400 in the first month of your investing program, you would have fared worse. You would have purchased only 120 shares, and the value of your account at the end of the six month period would be only \$1680, \$395.36 less than the current value under this scenario. By dollar cost averaging, you own more shares, and the average cost of each share will usually be less than the average price per share.

## How Does Dollar Cost Averaging Work in a Rising Market?

Once again, we'll assume a monthly investment of \$400 for six months. This time, share prices are rising, and you buy shares at: \$15, \$17, \$20, \$20, \$23, and \$25. At the end of the six month period, you own 123.58 shares and your average cost per share is \$19.42—58 cents less than the average price per share (\$20).

With the benefit of hindsight, it would have been better to invest the entire \$2400 during the beginning of the six month period when prices were at the lowest level. But could you have predicted precisely when to invest? And would you have known with absolute certainty that the investment would experience a steady rise during the next six months? Probably not. By dollar cost averaging, you can spread the risk of investing in a volatile market without worrying about the timing of your purchases.

### Investing \$400 each month in a rising market

<u>Month Bought</u>	<u>Investment</u>	<u>Price Per Share</u>	<u>Shares</u>
1	\$400	\$15	26.66
2	\$400	\$17	23.53
3	\$400	\$20	20.00
4	\$400	\$20	20.00
5	\$400	\$23	17.39
6	\$400	\$25	16.00
<b>Totals:</b>	<b>\$2400</b>	<b>\$20.00 (avg.)</b>	<b>123.58</b>

*Average cost per share: **\$19.42***

*(Total investment divided by number of shares bought)*

*Average price per share: **\$20.00***

*(Sum of share price divided by the number of contributions)*

Your Legend Advisor can help you get started with a program of regular investment contributions designed to meet your long-term goals. Contact your Advisor today and put dollar cost averaging to work for your future.

### **Securities offered through Legend Equities Corporation, member NASD and SIPC.**

*Before investing in a mutual fund, consider its investment objectives, risks, charges and expenses carefully. The prospectus, which contains this and other information about the mutual fund, can be obtained by contacting Legend Equities Corporation. Please read the prospectus carefully before you invest or send money. Investors should consider their ability to purchase shares continuously during periods of falling share prices.*

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