

Lump-sum vs. Systematic Investing in Uncertain Markets

The volatility of today's financial markets and the accompanying uncertainty of investment returns has resulted in a lot of lost sleep for many investors who heretofore thought the stock market could only move upwards over time. In fact, over the last 75 years, the stock market has moved in many different directions, influenced by many different socio-economic factors. However, all of these different markets can be "boiled down" to essentially three types of markets:

Up Markets, Down Markets & Flat Markets.

"Up" Markets exist when stock prices are generally rising over time. "Down" Markets exist when stock prices are generally falling over time. Flat Markets exist when stock prices cannot sustain any meaningful price movement—positive or negative—over time. "Over time" refers to timeframes that are at least ten years in length in the examples on the back of this flyer.

Our objective is to identify an investment methodology which is accessible to most equity investors and can help lower the average cost-per-share of securities over time. The attached graphic compares how two different approaches (**Lump-Sum Investing & Systematic Investing**) to investing in the market (Dow Jones Industrial Average) over a 10-year timeframe have historically impacted a portfolio under each of these three market scenarios.

The "Lump-Sum" approach is characterized as an investor who makes a single lump-sum investment (\$12,000) into the stock market (DJIA) and holds it for a decade and makes no additional contributions. The "Systematic" approach (**also known as "Dollar Cost Averaging"**) assumes the investor makes no initial investment but rather, invests the same amount (\$100/month) every month for ten years. At the end of ten years, both types of investors have invested the same amount—\$12,000. Direct investment could not have been made in the index cited and index performance is not indicative of any specific investment. Past performance is not indicative of future results.

"Up" Markets are the easiest for sophisticated and unsophisticated investors alike to prosper because stock prices are generally rising over time. It does not appear to matter which investment approach is utilized, as both grow over time.

"Down" Markets are the toughest for both approaches as stock prices are generally falling. The Lump-Sum approach fails because stock prices fall after the initial investment is made. The Systematic approach works

better here because as stock prices fall, the Systematic investor is able to accumulate more shares at successively lower prices. Once the market begins to recover—even if it does not return to its original level—losses generated by the falling share prices can be recouped quickly with rising share prices. The key word being "time" as investors will need to consider their ability to purchase shares continuously during periods of falling share prices.

"Flat" Markets may be the most "enigmatic" markets in that it is difficult to understand what drives these markets as they gyrate up and down with no real sense of direction. A Lump-Sum investor in a Flat Market does not lose, but he does not really gain either, because stock prices have ended the period at the same level as they began. If the time value of money is factored in, the Lump-Sum investor has actually lost money in this scenario. Conversely, the Systematic investor has a better opportunity to prosper because he acquires fewer shares when prices are high and more shares when prices are low. Over time, the average cost per share for the Systematic investor to acquire stock will usually be less than the Lump-Sum investor and thus, be more profitable for the Systematic investor.

The moral to the story: No one knows exactly what type of market is presenting itself at any given time. And no single approach can assure a profit or protect against a loss in a declining market. However, a Systematic investment approach appears to provide the best methodology in all kinds of markets because of its process. A process which is naturally "unemotional" (as to which type of market currently exists) and which may help many investors recover some of their lost sleep and to sleep better at night on an ongoing basis.

On the back of this flyer, three pairs of decade-long charts are shown: 1943-1953; 1929-1939 & 1937-1947. Each of the decades represents a different type of financial market scenario: Up, Down or Flat. The charts on the left side of the page demonstrate a Lump-Sum approach to investing while the charts on the right side of the graphic demonstrate a Systematic approach to investing.

In looking at the **"Up" Market charts of 1943-1953** (top), both investment approaches are successful. The Lump-Sum investor's initial investment of \$12,000 grows to \$24,720 by the end of 10 years. The Systematic investor has also invested \$12,000 but did so over time at the rate of \$100 per month. His portfolio has grown to \$19,645. Not quite as well as the Lump-Sum approach, but still strong results. Thus, both investment approaches display growth in account values during an "Up" Market.

The **"Down" Market charts of 1929-1939** tell a much different story. During this 10-year period, the DJIA was down in value. Again, each investor invests their \$12,000 in the same manner. The Lump-Sum approach starts with \$12,000 but ends with \$7,200 - after recovering from a low of \$3,000. Meanwhile, the Systematic approach starts at \$100 per month and ends with \$19,400 - nearly the same value as the "Up" Market of 1943-1953. This "Down" Market scenario clearly demonstrates the value of a Systematic approach to investing.

The **"Flat" Market charts of 1937-1947** demonstrate how different your final result can be based upon your investment approach; especially in a sideways or "Flat" market. The Lump-Sum investor experiences dramatic volatility as he watches his initial \$12,000 investment gyrate up and down over the decade only to end up with his original \$12,000 investment. Meanwhile, the Systematic investor was able to lower the average purchase price per share by "dollar-cost averaging", watching his investment grow to \$22,407—nearly double the value of the Lump-Sum investor!

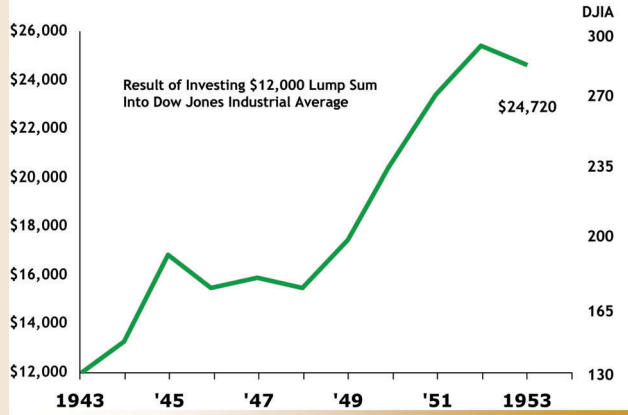
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Lump-Sum Investing

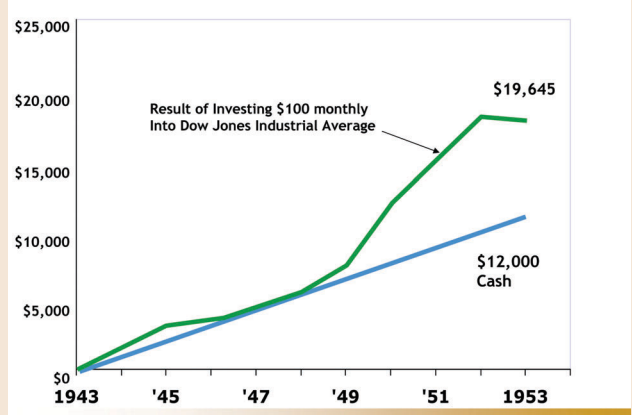
Systematic Investing

Up Markets

The Ten Year Period 1943 to 1953

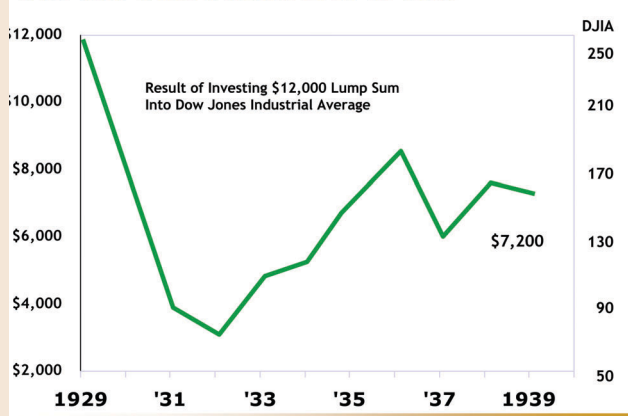


The Ten Year Period 1943 to 1953

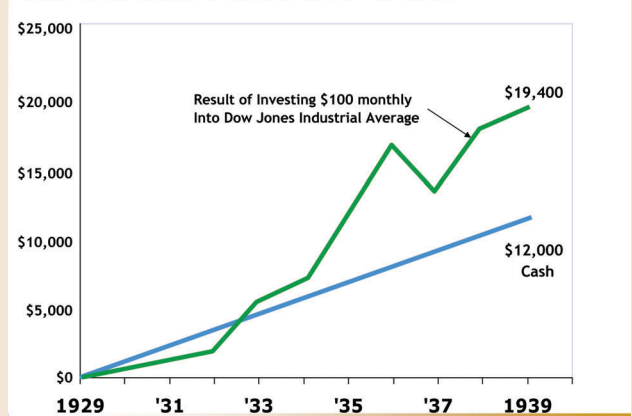


Down Markets

The Ten Year Period 1929 to 1939

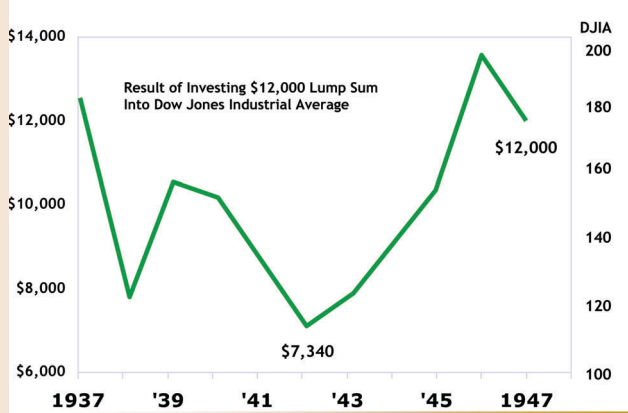


The Ten Year Period 1929 to 1939



Flat Markets

The Ten Year Period 1937 to 1947



The Ten Year Period 1937 to 1947

