Dollar Cost Averaging

A Time-Tested, Disciplined Approach to Sound Investing

Choosing an investment strategy that suits you is never easy. You face a myriad of tough questions, including:

- How much money should I invest?
- How often should I invest?
- Where should I invest my money?

Fortunately, there's a venerable investment strategy that could be the answer to many of your concerns. It's called dollar cost averaging, and it can simplify your investment planning.

What is Dollar Cost Averaging?

The name may sound complicated but, simply put, dollar cost averaging is the systematic investment of a fixed dollar amount at regular time intervals. For example, you could invest $100 every week. Or $500 every month. Or $1,000 every three months. The amount and frequency of your investments depends upon your financial capability and long-term goals. However, once you initiate the plan, the key to success is sticking with it through market fluctuations.

How Does Dollar Cost Averaging Work?

Basically, dollar cost averaging attempts to take the ups and downs of the market out. Instead of trying to time the highs and lows (a daunting task, even for professionals), you're investing the same amount of money at regular intervals. Dollar cost averaging encourages a systematic approach to investing that frees you from trying to time the market. Let's take a look at how dollar cost averaging would work under three hypothetical market environments: fluctuating, rising, and declining.

Fluctuating Market			
	Regular Investment	Share Price	# of Shares Acquired
	$100	$10	10
	$100	$5	20
	$100	$10	10
Total	**$300**	**$25**	**40**

Average share cost to you: $7.50 ($300 ÷ 40)
Average share price over 3 months: $8.33 ($25 ÷ 3)

Dollar Cost Averaging in Changing Times

Let's say you decide to put $100 every month in an investment that is currently selling for $10 per share. (This hypothetical example assumes that there are no additional charges). The first month you invest $100 and receive 10 shares. Then, in an extreme but easy-to-follow example, the market falls and the price drops to $5 per share. In the second month your $100 buys you 20 shares. The market rebounds in the following month, the price jumps to $10 per share, and for your $100 investment you receive 10 shares. The chart above shows where you would stand.

In Good Times…

Let's say when you begin with your investment program, the market rallies. Your investment rises from $20, to $25, and eventually $50 per share. As you can see on the chart below, when the market rises, you benefit in two ways: the value of your total investment increases, and the average cost you paid is lower than the average share price (not so obvious, but true). When you compare the average share price ($31.67) to what you actually paid ($27.27), you can appreciate the benefits of dollar cost averaging.

Rising Market			
	Regular Investment	Share Price	# of Shares Acquired
	$100	$20	5
	$100	$25	4
	$100	$50	2
Total	**$300**	**$95**	**11**

Average share cost to you: $27.27 ($300 ÷ 11)
Average share price over 3 months: $31.67 ($95 ÷ 3)

…And in Bad

It's tough to find a silver lining in the dark cloud of a declining market, but through the consistency of Dollar Cost Averaging, you can take some consolation. Let's assume the market begins to slide and the price drops to $25, then $20, and eventually $10 per share.

On the chart on the next page, you see that when the share price fell from $25 to $10, you were able to purchase the greatest number of shares. In addition, your average share cost ($15.79) was less than the average share price. Because you invested a fixed dollar amount at regular intervals, ignoring the price fluctuations, you were able to purchase a larger number of shares when the price was low and a smaller number of shares when the price was high. In effect, you are able to buy more at lower prices, and relatively less at what might be considered higher prices.

Declining Market			
	Regular Investment	**Share Price**	**# of Shares Acquired**
	$100	$25	4
	$100	$20	5
	$100	$10	10
Total	**$300**	**$55**	**19**

Average share cost to you: $15.79 ($300 ÷ 19)

Average share price over 3 months: $18.33 ($55 ÷ 3)

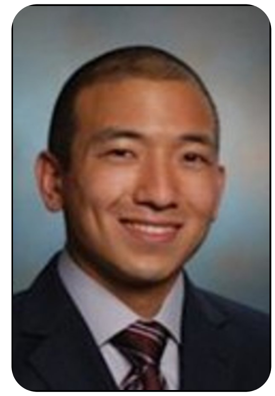
No Guarantees in Life

As illustrated in the "declining market" example, dollar cost averaging does not guarantee a profit nor protect against loss. It's every investor's dream to "beat the market," but unfortunately there are no magic methods that can guarantee that.

However, dollar cost averaging can offer a disciplined, systematic approach to investing that could be the cornerstone of your long-term planning. Since this approach involves continuous investment in securities regardless of fluctuating price levels, you should consider your financial ability to continue making purchases during periods of low price levels.

Setting Up Dollar Cost Averaging

While dollar cost averaging may simplify the questions "How much?" and "How often?" to invest, you must also answer the question, "Where should I invest?" Your NYLIFE Securities financial professional can help you determine the answer to that question. Keep in mind that dollar-cost averaging does not assure a profit nor does it protect against loss in declining markets. To be effective, there must be a continuous investment regardless of price fluctuations. Investors should consider their financial ability to continue to make purchases through periods of low price levels.



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