



# EVERGREEN ESSENTIALS

## DOLLAR COST AVERAGING

Dollar Cost Averaging is a simple investment strategy that can provide investors with tangible benefits over the long term.

Dollar Cost Averaging is a strategy where an investor chooses to invest their funds over a period of time, rather than investing all at once. An example of Dollar Cost Averaging is investing a lump sum in, say, three equal amounts over a six-month period or perhaps using a monthly savings plan. The effect is to average the purchase price of the investment over time, hence the name “Dollar Cost Averaging”.

To see how it works, we have two investors, Beryl and Gerald, who are both interested in investing in Mikey’s Exotic Animals Fund.

Beryl thinks that the price of Exotic Animals will fluctuate and decides to invest \$1,000 on the first day of every month for a year. Our second investor, Gerald, doesn’t want to miss out on any returns in the near term and decides to invest \$12,000 straight away.

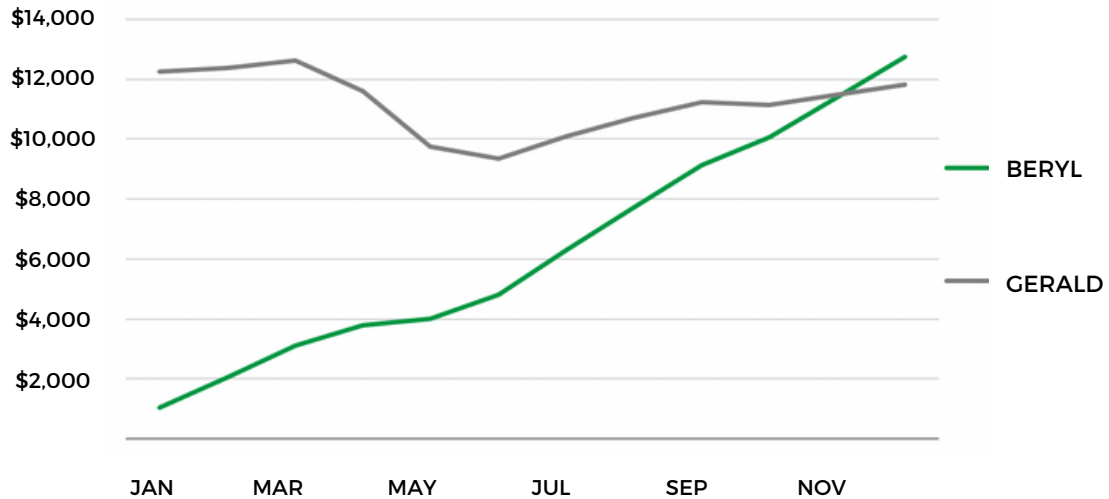
In Scenario A below, Beryl is right, and the price of Exotic Animals moves up and down each month.

### SCENARIO A

MONTH	MONTH START PRICE	RETURN	MONTH END PRICE	BERYL		GERALD	
				CONTRIBUTION	MONTH END VALUE	CONTRIBUTION	MONTH END VALUE
JAN	\$1,000	2%	\$1,020	\$1,000	\$1,020	\$12,000	\$12,240
FEB	\$1,020	1%	\$1,030	\$1,000	\$2,040		\$12,362
MAR	\$1,030	2%	\$1,051	\$1,000	\$3,101		\$12,610
APR	\$1,051	-8%	\$967	\$1,000	\$3,773		\$11,601
MAY	\$967	-16%	\$812	\$1,000	\$4,009		\$9,745
JUN	\$812	-4%	\$780	\$1,000	\$4,809		\$9,355
JUL	\$780	8%	\$842	\$1,000	\$6,274		\$10,103
AUG	\$842	6%	\$892	\$1,000	\$7,710		\$10,710
SEP	\$892	5%	\$937	\$1,000	\$9,146		\$11,245
OCT	\$937	-1%	\$928	\$1,000	\$10,044		\$11,133
NOV	\$928	3%	\$956	\$1,000	\$11,375		\$11,467
DEC	\$956	3%	\$984	\$1,000	\$12,747		\$11,811

BERYL AVERAGE PRICE: \$933

### SCENARIO A: PORTFOLIO VALUE



At the end of the year, Beryl is better off than Gerald. This is because the fluctuations in the Fund's price allows Beryl to buy units at lower prices at different points during the year. So she ends up with more units in the Fund than Gerald.

Let's consider another example, where Exotic Animal's value generally moves up over the year.

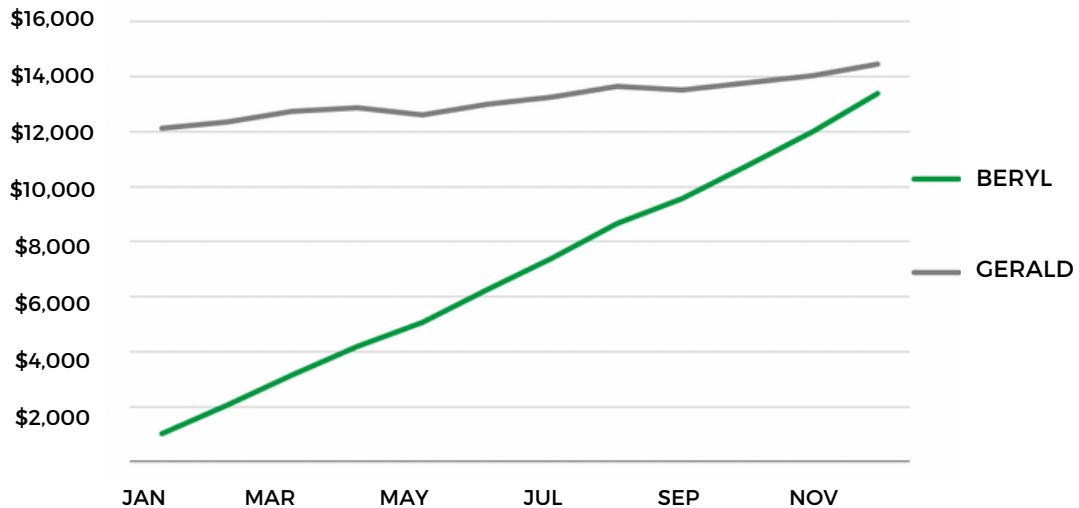
In this situation, Gerald is better off, as he benefits from the rising value of the Fund.

### SCENARIO B

MONTH				BERYL		GERALD	
	MONTH START PRICE	RETURN	MONTH END PRICE	CONTRIBUTION	MONTH END VALUE	CONTRIBUTION	MONTH END VALUE
JAN	\$1,000	1%	\$1,010	\$1,000	\$1,010	\$12,000	\$12,120
FEB	\$1,010	2%	\$1,030	\$1,000	\$2,050		\$12,362
MAR	\$1,030	3%	\$1,061	\$1,000	\$3,142		\$12,733
APR	\$1,061	1%	\$1,072	\$1,000	\$4,183		\$12,861
MAY	\$1,072	-2%	\$1,050	\$1,000	\$5,079		\$12,603
JUN	\$1,050	3%	\$1,082	\$1,000	\$6,262		\$12,981
JUL	\$1,082	2%	\$1,103	\$1,000	\$7,407		\$13,241
AUG	\$1,103	3%	\$1,137	\$1,000	\$8,659		\$13,638
SEP	\$1,137	-1%	\$1,125	\$1,000	\$9,563		\$13,502
OCT	\$1,125	2%	\$1,148	\$1,000	\$10,774		\$13,772
NOV	\$1,148	2%	\$1,171	\$1,000	\$12,009		\$14,047
DEC	\$1,171	3%	\$1,206	\$1,000	\$13,400		\$14,469

BERYL AVERAGE PRICE: \$1,100

### SCENARIO B: PORTFOLIO VALUE



#### So, when is it best to use Dollar Cost Averaging?

Dollar Cost Averaging can work well if you believe that an investment you'd like to invest in will be volatile in price or you are concerned that an asset might fall in price, particularly in the near term. A savings plan often works well over the medium term, because it is likely that there will be some volatility in price over that time, which an investor can benefit from.

#### Some Pros and Cons of Dollar Cost Averaging:

##### Pros

- Allows investors to benefit from negative volatility while still having the potential to generate returns if the asset's price increases
- Removes emotion from the investment decision
- Allows investors to gain exposure to an asset that grows over time where they may have otherwise not invested.

##### Cons

- May incur multiple transaction costs, which can erode gains
- Potential for the asset to rise quickly or steadily, so that the average purchase price ends up higher rather than lower.

#### At the End of the Day (or Holding Period)

Dollar Cost Averaging may suit investors who wish to invest their funds but are cautious with regard to the timing of their investment. While it can help to mitigate some of your risk, and could prove additive to total returns, beware of increased transaction costs and the potential for different return outcomes, being it higher or lower than only making one lump sum investment.

Ultimately, you should talk to your financial adviser to ensure this strategy suits you and your financial needs.



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