factsheet

marshtincknell Chartered Accountants

DOLLAR COST AVERAGING – WHAT IS IT?

The Swedish Chimpanzee Method

If you persevere with this text, you will be rewarded with an introduction to Dollar Cost Averaging, the minnow marvel that could help make you rich. But first, to Stockholm and a chimpanzee named Ola.

A Swedish newspaper gave give stock analysts and Ola 1,250 kronor each. The idea was to see who would make the most money on the Stockholm stockmarket. Ola won. After just one month, Ola's portfolio went up by 190 kronor. While each of the five experts expertly considered what exactly to do, Ola tossed darts at names of listed companies. One dart hit Forsheda, a small diversified company whose share price went up 44% over the month. Easy.

Except, of course, such a method is rather risky and not just because you might hit someone in the eye with your dart (or get hit yourself if you commission a chimpanzee).

Every bit as risky is that other "hit or miss" method. You know, the one where the 'investor' lets his heart, rather than a dart, decide for him. Mark Twain said "*all emotion is voluntary when genuine*." Genuine emotion as in "I didn't mean to buy the shares when they were priced high and I didn't mean to panic and sell them when the price fell" – drives the demise of most mug investors.

So what *drives the rise* of the successful investor?

Sometimes it is sheer brilliance. Mostly, it is sheer discipline. Discipline? Hold on and read on. Even dull old discipline becomes exciting when it is combined with something called Dollar Cost Averaging.

DOLLAR COST AVERAGING

Dollar Cost Averaging is an investment strategy that requires no thinking, no decision making, no analysis, no will-I-or-won't-I hankie wringing. All you do is invest the same number of dollars at regular intervals, no matter what. You invest say $100 every month in a unit trust … no matter what. No matter whether the share markets are up or down, soaring or crashing. You simply grit your teeth and Just Do It.

This very simple strategy works. For this very simple reason: your regular, set amount investment buys less when the market is up and more when the market is down. It does this automatically. And therefore frees you from the worry of trying to time the market, something not even the world's most sophisticated analysts can do well enough to guarantee a profit. Sure, Dollar Cost Averaging doesn't guarantee a profit either. If you have to sell at the bottom of a falling market you will lose money – just like anyone who is forced to sell at the bottom. But when you stick to a disciplined Dollar Cost Averaging plan, you are forced to *buy…not sell*. That's the whole point. And fortune does not favour the brave.

Sounds good in theory, doesn't it? But what about in practice?

Of course, Dollar Cost Averaging is no Get Rich Quick scheme and it's a scheme that is even better than forced saving, because it's forced investing.

You see, you cannot eeny, meeny, miny, mow your way to greener pastures and you can't really follow the herd there … because even the most bullish, especially the most bullish, herds get lost or turn out to be lemmings. You must have a plan!

Should you wish to discuss the above issues in further detail, please do not hesitate to contact Marsh Tincknell on 07 3422 8000 or info@mtaccountants.com.au