

# Dollar Cost Averaging Explained

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## What is Dollar Cost Averaging?

Dollar Cost Averaging (DCA) is an investment strategy whereby investors contribute a fixed amount to their investments regardless of market conditions. This helps to lower the purchase price of your investments over time by taking advantage of market dips as well as reducing the risk of bad timing or investing according to one's emotions.



## DCA in Action

Let's say we have two different investors, Adam and Ben.

Adam practices DCA by investing RM200 every month into a unit trust fund. While the unit price may change every month, Adam consistently invests the same amount, which allows him to buy more units when prices are low and less units when prices are high. Over time, this allows him to lower down the average cost of his investment.

### Adam



Month	Amount Invested	Unit Price	Units Bought
Jan	RM200	RM1.00	200
Feb	RM200	RM0.80	250
March	RM200	RM0.60	333
April	RM200	RM1.20	167
May	RM200	RM1.40	143
<b>TOTAL</b>	<b>RM1,000</b>	<b>RM0.91 average cost per unit</b>	<b>1,093</b>

In contrast, Ben prefers to take an all-in approach and invests a lump-sum of RM1000 when the unit price is RM1.00.

### Ben



Month	Amount invested	Unit Price	Units Bought
Jan	RM1,000	RM1.00	1,000
Feb	-	-	-
March	-	-	-
April	-	-	-
May	-	-	-
<b>TOTAL</b>	<b>RM1,000</b>	<b>RM1 average cost per unit</b>	<b>1,000</b>

Assume that the unit price of the fund rises to **RM1.50** at the end, Adam and Ben's total gains are calculated as follows:-

	Adam	Ben
Investment cost	RM1,000	RM1,000
Units bought	1,093	1,000
Portfolio value [RM1.50 x 1093 (number of units)]	RM1,640	RM1,500
Capital gain (Portfolio value - investment cost)	RM640	RM500

From the example above, it is clear that the DCA approach proves to be a much more effective strategy to ride out the volatility in markets and reduce risk of bad timing.

Scan here:



## Consistency is Key

Invest as soon as you can, for as long as you can. Let us be your partner in your investment journey. Book an appointment with us at <https://affinhwangam.com/get-in-touch/book-an-appointment>

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