



# GOODWILL INSURANCE BROKERS L.L.C.

*"Protection Against Catastrophes"*



## GOODWILL GUIDE TO DOLLAR COST AVERAGING



# What Is Dollar Cost Averaging?

- THE SMART WAY TO INVEST

## Successful Investments and the Volatile Markets

One thing that is always certain is that markets will fluctuate but what remains unpredictable is when they will fluctuate and how volatile they will be. It is hard not to react to market swings, but making decisions based on short term fluctuations may have a disastrous effect on long term returns and your investments. This is why it is important to understand “Dollar Cost Averaging”, and how it is beneficial as an investment strategy in ultimately safeguarding your future (*please refer to Goodwill Guide to Retirement & Pension Planning*).

## What Is Dollar Cost Averaging (DCA)?

Dollar cost averaging (DCA) is an easy way to even out market fluctuations by automatically investing a set amount over a determined period of time, regardless of changing prices.

Think of DCA as a disciplined and consistent approach to investing. You invest a specific dollar amount at regular intervals, usually monthly. Because **share** prices fluctuate and your investment dollars remain constant, at times the price you pay will be higher than the average price, and at other times it will be lower.

## Why Dollar Cost Average?

When you invest a consistent amount over time, you’ll potentially be able to buy more shares when the price is low and fewer shares when the price is high. In a fluctuating market, this means that your average cost per share over a period of time may be lower than the price per share on a specific date during that period.

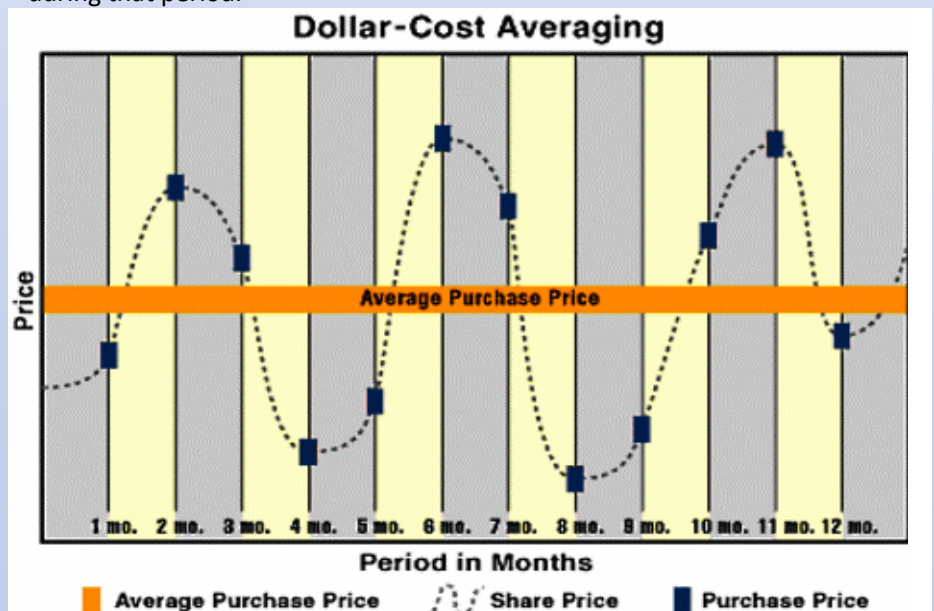
*A share is a unit of ownership interest in a financial asset or corporation.*

*Before you begin a DCA strategy for investments, ask yourself:*

- How much can I invest?
- How often can I invest?
- How long should I dollar cost average?

This guide will help you understand Dollar Cost Averaging and about market trends.

E-mail us for expert advice on - [gib@eim.ae](mailto:gib@eim.ae)



## BENEFITS OF DCA

- Investors enter market with lower risks and lower costs
- Investment amounts are set by you
- Eliminates needless worry about market fluctuations
- Investments can be done in small amounts monthly
- Opportunity to purchase a lot more shares when prices are low

*Dollar cost averaging helps take the emotion out of investing and provides the opportunity to use the market's ups and downs to your advantage.*



### How You May Pay Less Per Share in a Volatile Market

Consider the following hypothetical scenario –

Investor A invests a lump sum of \$1200 in an investment portfolio on January 1. Meanwhile, Investor B, using the DCA principle, invests \$100 in the same portfolio on the first trading day of each month for 12 months. Over time, as the table below suggests, DCA Investor B purchases more shares at a lower average price.

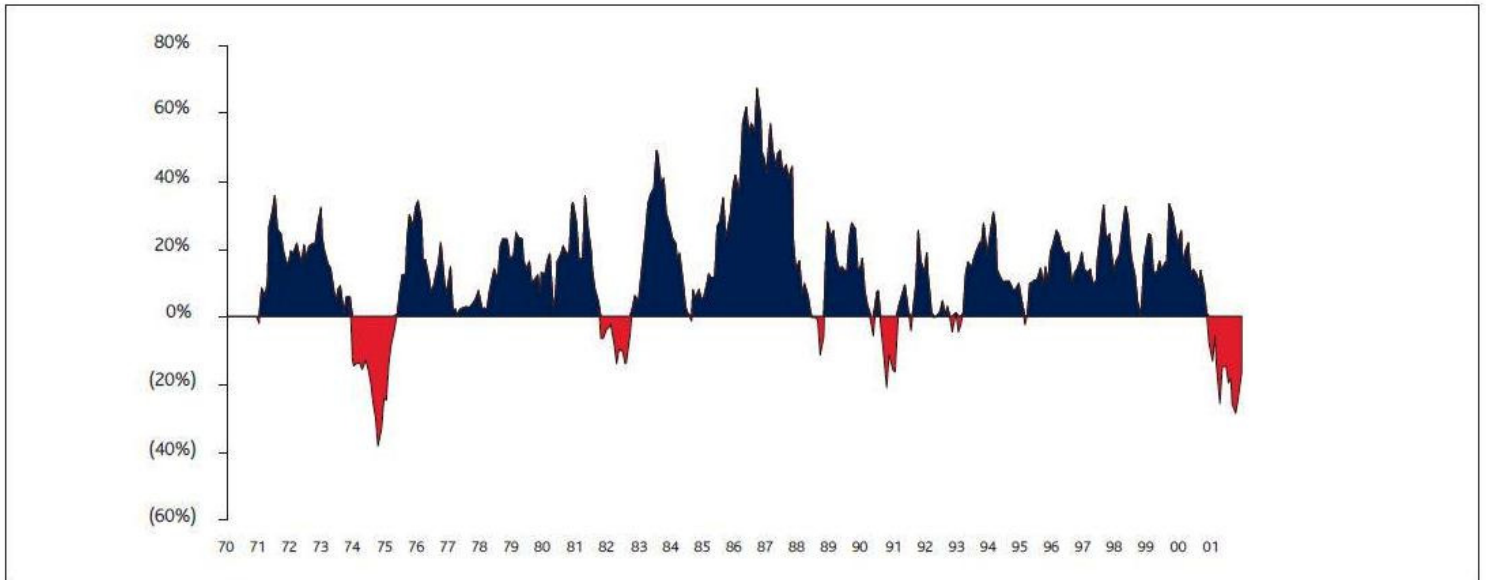
		Lump Sum Investor A USD 1200	DCA Investor B USD 100 / month
Month	Share Price	Shares Purchased	Shares Purchased
January	\$21.00	57.14	4.76
February	\$24.00	0	4.17
March	\$18.00	0	5.55
April	\$16.00	0	6.25
May	\$17.50	0	5.71
June	\$14.00	0	7.14
July	\$10.00	0	10.00
August	\$15.00	0	6.67
September	\$17.00	0	5.88
October	\$25.00	0	4.00
November	\$18.25	0	5.48
December	\$22.00	0	4.54
<b>Total Shares Purchased</b>		<b>57.14</b>	<b>70.15</b>
<b>Average Price Per Share</b>		<b>\$21.00</b>	<b>\$17.11</b>

However, it is important to note that DCA does not ensure a profit or protect against loss in declining markets. You should consider your financial ability to continue to invest, even when prices are low.



The graph below tracks the MSCI World Index from 1970 onwards, and its message is clear – the number of positive market periods is more than the number of negative market periods. The positive market periods also tend to be longer. So the fear of loss is more emotional than logical. DCA eliminates this emotional fear.

## MSCI World Index Performance\*



Source: Datastream, Franklin Templeton Investments.

\*Trailing 12 month compounded return, to end December 2001 - this means the graph calculates percentage growth over 12 monthly periods. So, for example, the first 12 month rolling period is from start of January 1970 to end of December 1970, the second 12 month rolling period is from start of February 1970 to end of January 1971. Investors should be aware that the value of units may fall as well as rise. Past performance is not necessarily a guide to the future.

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## GOODWILL INSURANCE BROKERS LLC.

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