



# Dollar Cost Averaging

Ever since the beginning of stock trading, investors have looked for signs to indicate when stock prices will rise or fall. So far, no one has come up with a foolproof method for consistently predicting market upswings or downturns. **Dollar Cost Averaging** is an investing strategy that can help reduce the risk of bad timing and take the emotion out of it.

## Eliminating the guesswork

Dollar cost averaging is the strategy of investing a fixed amount of money at regular intervals. Let's say

you decide to invest \$100 a month in a particular portfolio until you retire. You make your \$100 investment whether the price per share is up or down. By doing so, you avoid trying to "time the market" – the attempt to invest when market conditions appear favorable. It may not seem to make sense to invest during an unfavorable market. But, since you're investing a fixed amount, your money buys more shares when prices are low and fewer shares when prices are high.

### Nick – lump sum investor

Nick put \$600 in the market at one time. His price per share was \$20, and he got 30 shares.

Month	Amount invested	Price per share	Shares purchased
1	\$600	\$20	30

**Total amount invested = \$600**

**Total number of shares purchased = 30**

**Average cost per share = \$20**

### Stephanie – dollar cost averaging investor

Stephanie used dollar cost averaging and put \$100 in her portfolio each month. For six months, the share price of the portfolio fluctuated from \$25 to \$10 with an average price of \$17.50. Because Stephanie used dollar cost averaging, her average per-share cost was only \$15.38 and she has 9 more shares than Nick.

Month	Amount invested	Price per share	Shares purchased
1	\$100	\$20	5
2	\$100	\$25	4
3	\$100	\$10	10
4	\$100	\$20	5
5	\$100	\$10	10
6	\$100	\$25	4

**Total amount invested = \$600**

**Total number of shares purchased = 38**

**Average cost per share = \$15.78**

These are hypothetical examples for illustrative purposes and do not represent the results of any investment plan in any portfolio. Your investment results will differ. Any investment involves risk, including the possible loss of the principal amount invested.

Dollar cost averaging won't completely protect your portfolio from a loss if the market takes a plunge. But it may help reduce any losses and leave you in a good position to benefit from a recovery since you'll still be fully invested.

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Investing regular amounts steadily over time (dollar cost averaging) may lower your average per-share cost, but this investment method will not guarantee a profit or protect you from a loss in declining markets. Effectiveness requires continuous investment, regardless of fluctuating prices. You should consider your ability to continue buying through periods of low prices.



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