Many investors are hesitant to put large amounts of money into the market all at once because of the possibility of it immediately losing value. While it’s never a good idea to let your emotions dictate your investment strategies, it’s hard to ignore the sinking feeling that comes with a devalued portfolio.

Dollar-cost averaging is an investing strategy used to mitigate this type of risk. In practice, you would invest your $10,000 in equal amounts over a period of time, say $1,000 each month for 10 months. In months when the stock price is low, you’ll purchase more shares, and in months when the price is high, you’ll purchase less. On average, the cost you spend per share may be lower because you’re buying more total shares at a low price than you are when the price is high. For example, if the stock is worth $200 in the first week, you’ll buy five shares. The following week, the stock is worth $100, so you’ll buy ten shares. You’ve invested $2,000 and you have 15 shares of stock, with your average cost being $133 per share. If you’d invested $2,000 the first month, you would only have purchased ten shares with a cost of $200 per share. By using dollar-cost averaging, temporary fluctuations in the market even themselves out.

This method works best if you consistently invest the same amount each month, regardless of how the market is faring. Trying to time the market or predict whether it’s moving up or down will undermine the strategy. It also works best for more volatile investments such as stocks or mutual funds, but make sure you’re not racking up commission costs by filtering your money in piecewise. The difference between dollar-cost averaging and lump-sum investing is that you’re paying the average price throughout the year instead of today’s price. If you think the market will go down throughout the year, dollar-cost averaging could be a good strategy to use. However, it might not be wise to invest in something that you foresee decreasing in value over the long term.

Downsides
While dollar-cost averaging sounds like a prudent investing strategy for the risk-averse, there are actually a lot of downsides and historical data against its effectiveness:

- Money that hasn’t been invested yet is not working as hard as it could be. If you only invest $1,000 of your $10,000 savings the first month, you have $9,000 in cash that may not be not earning interest or growing. That $9,000 would probably be better off in the stock market, despite its volatility.
- It can be difficult to decide when to begin investing, how often to add money to your investments and...
how much to put in each time. If you wait too long, inflation can devalue your uninvested cash.

- Dollar-cost averaging only works if the market is declining steadily. If so, you’re losing money anyway by investing in a declining market.

- Your portfolio will be more conservative than you want it to be throughout the investing period because you’ll always have a percentage in cash that could be invested. If your goal is to have 60 percent stocks and 40 percent bonds but have only invested half of your money so far, you really have 50 percent cash, 30 percent stocks and 20 percent bonds.

- Many studies have found lump-sum investing to be more successful than dollar-cost averaging two-thirds of the time. Historically, the strategy has worked well if started right before the market takes a downward turn, but it’s nearly impossible to predict when this will happen. Plus, this goes against the underlying purpose of the strategy, which is to avoid market timing.

The stock market generally rises over time if you look at long-term trends instead of short-term volatility. This means it makes more sense to invest everything at once and allow your investment to grow over time, with short-term losses proving insignificant.

**Benefits**

Despite the numerous downsides, dollar-cost averaging does offer some benefits to investors. The benefits are more psychological than financial, however. Dollar-cost averaging can help wary investors get over the hurdle of making that first investment because they don’t have to invest it all at once. While market fluctuations don’t matter very much in the long run, it does help psychologically if you don’t see a lot of devaluations early on in your investing period. Investors generally feel worse about losing money than they do about missing an opportunity to make money, which would make dollar-cost averaging the obvious choice for many people.

Dollar-cost averaging also helps decrease the natural tendency toward trying—and failing—to time the market. The “set it and forget it” strategy is also appealing to investors who want to simplify their strategy. Additionally, many mutual funds offer incentives for those who regularly invest rather than choosing one-time, lump sum investments. Finally, this investment strategy may be the only way for some people to commit to saving and investing. If you know you have to invest a set amount each month, you’ll be less likely to spend it on something else.

**Variations**

Contributing money from each paycheck to a 401(k) plan is sometimes considered dollar-cost averaging, but many experts claim that true dollar-cost averaging occurs only when you have a large amount of money that you could invest all at once, but you choose to invest slowly over time instead. When you allocate a portion of your earnings for investing, you’re putting in as much as you can at the time, which anyone would agree is preferable to saving it up to invest at a later date.

Another variant is value averaging, in which you set a goal for your portfolio’s value each month. For instance, you might set out to increase your portfolio by $1,000 each month. If you start by investing $1,000 and your portfolio grows to $1,100 in the first month, you’ll only have to invest $900 in the second month. With this strategy, you’ll invest more when the market is down than when it’s up, which can be a beneficial strategy.

Dollar-cost averaging is a controversial investing strategy with compelling reasons both for and against it. To decide if it’s a good strategy for your own investments, consider your goals, risk tolerance and motivations. Look at historical trends and decide if it will benefit your investments before making a decision.
Household debt in the United States has eclipsed the nominal level of debt at the height of the mortgage crisis. However, inflation has decreased purchasing power over the past decade, meaning the relative amount of debt has still not surpassed peak historic levels.

Citing over $70 billion in bond debt and nearly $45 billion in underfunded pensions, Puerto Rico is seeking the largest government bankruptcy declaration in the history of the United States.

On the cusp of bankruptcy, Venezuela sold bonds to Goldman Sachs in an attempt to stave off a fiscal disaster. According to the Wall Street Journal, Goldman Sachs paid about 31 cents for each dollar of bonds. However, with inflation slated to hit 2,500 percent this year, the effect of this maneuver remains to be seen.

In a study by Equilar and the Associated Press, which included 346 S&P 500 companies, the average CEO heading an S&P 500 company made $11.5 million “in salary, stock and other compensation.” This represented an 8.5 percent increase from the previous year.

In May, the Volatility Index (VIX), or what is commonly known as the “fear index,” closed at its lowest level since December 1993.

According to the New York Times, there are about 32 million children in the United States who currently receive federal subsidized school lunches.

Nearly half of Americans cannot afford to cover a $400 emergency, according to information released by the Federal Reserve’s annual Survey of Household Economics and Decision-making.

Ford Motor Co. plans on cutting around 10 percent of its global workforce, according to the Wall Street Journal. These cuts coincide with Ford’s intention to cut $3 billion in company costs this calendar year.

In early May, Apple became the first ever company to have a market cap of over $800 billion.
June

is National Safety month

According to the U.S. Department of Health and Human Services, injuries are a leading cause of disability for people of all ages – and they are the leading cause of death for Americans ages 1 to 44. But there are many things people can do to stay safe and prevent injuries.

We can all use this month to raise awareness about important safety issues:

- Medication safety and prescription painkiller abuse
- Driving, biking and working safely
- First aid and emergency preparedness
- Preventing slips, trips and falls

Begin by learning about safety risks and how to prevent them. Everyone can get involved in reducing the risk of injuries and encouraging others to do so. Find out more at nsc.org

The “PLANADVISER Top 100 Retirement Plan Advisers” list is compiled from responses to the PLANADVISER Retirement Plan Adviser Survey. The list is drawn solely from a set of quantitative variables and information in the survey supplied by the advisers themselves. H&H qualified under the small team category which is an advisor with 10 or fewer team members. Go to planadviser.com/Top100 for more information.