Disciplined approach to wealth management

Machel & Associates
Wealth Advisory Group

Monday Morning Minute with Mike Machel
During Uncertain Markets: How Dollar-Cost Averaging Can Help

June 3, 2024

Renowned investor John Templeton is remembered for advocating the 'principle of maximum pessimism': *"People are always asking me where is the outlook good, but that's the wrong question. The right question is: Where is the outlook the most miserable?"*

In investing, while the concept of buying securities at low prices and selling them at high prices may seem obvious, it may be a lot more difficult for investors to do in practice. Bottoms tend to occur when sentiment is at its lowest, and the natural inclination may be to sell, not buy. As Templeton reminds us, these are precisely the times that can turn out to be some of the most opportune.

For many of us, it's not easy to commit new funds to an investment during uncertain times. This is where a dollar-cost averaging (DCA) program may be a useful technique. A DCA program mandates regular, modest investments, rather than one major lump-sum commitment. Thus, investors need not focus on thinking about market movements to prompt buying decisions.

DCA can also align nicely with personal cash flow, as contributions are made at regular intervals, such as monthly or quarterly. This promotes the discipline of saving on a steady basis. Not only can it remove the emotion from investing decisions and match cash flow, but for longer-term investors DCA can also help to build future returns — even when prices may be falling over extended periods.

How can a DCA program help during down markets? A real-life example (chart) shows the potential impact over a prolonged bear market. It may be hard to remember, but the last sustained S&P/TSX Composite bear market occurred after the dot.com bust of 2000 and lasted 25 months, ending in September 2002.[1] The chart uses actual returns of the S&P/TSX Composite Index to depict a DCA program where, each quarter, $1,000 was invested. Despite poor market performance, the DCA program resulted in a modest gain of $1,130 ($17,130 less the $16,000 invested) and, more importantly, the ownership of significantly more units, which benefited the portfolio as time went on.

Given a constant investment amount, consider that you can purchase more units when prices are lower and fewer units when prices are higher. By contrast, had the lump sum investment of $16,000 been deployed at the beginning of the period, it would have returned a small loss, with an overall value of $15,633 and just 1,902 units owned compared to the 2,084 units under the DCA program.

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Machel & Associates
Wealth Advisory Group

During times of uncertainty, DCA may be a useful strategy for some investors to take the emotions out of investing while continuing to put money to work. DCA is a good reminder that a thoughtful investing plan can result in positive progress toward achieving wealth-building goals, even during down-market times.

Profiting Through a Bear Market: DCA Using S&P/TSX Index During 2000 to 2003

Quarter	Index/1000	Units	Units Owned	Total Value
12-99	8.4138	118.85	118.85	$1,000
03-00	9.4624	105.68	224.53	$2,125
06-00	10.1995	98.04	322.58	$3,289
09-00	10.3779	96.36	418.94	$4,348
12-00	8.9337	111.94	530.87	$4,743
03-01	7.6080	131.44	662.31	$5,039
06-01	7.7364	129.26	791.57	$6,124
09-01	6.8386	146.23	937.80	$6,413
12-01	7.6884	130.07	1067.87	$8,210
03-02	7.8515	127.36	1195.23	$9,384
06-02	7.1456	139.95	1335.18	$9,541
09-02	6.1804	161.80	1496.98	$9,252
12-02	6.6145	151.18	1648.16	$10,902
03-03	6.3433	157.65	1805.81	$11,455
06-03	6.9831	143.20	1949.01	$13,610
09-03	7.4211	134.75	2083.76	$15,464
12-03	8.2209	–	2083.76	$17,130

Source: S&P/TSX Composite Index closing figures, 12-31-99 to 12-31-03.
Past performance is never indicative of future performance.

Have a great week.

Warmest Regards,

Mike Machel, FMA, CIM
Senior Wealth Advisor & Portfolio Manager

Machel & Associates Wealth Advisory Group
National Bank Financial - Wealth Management

Office: 204-925-5176
Toll-Free: 800-461-6314
Email: mike.machel@nbc.ca
Web: Machel & Associates Wealth Advisory Group
Address: 1000 – 400 St. Mary Avenue Winnipeg, MB R3C 4K5

my Linkedin profile

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

Machel & Associates Wealth Advisory Group