Dollar Cost Averaging

White Paper

"Should I Wait, or Should I Invest Now"?

How many times do you believe this question has been asked by investors? We saw the market shed 34% from its high in a few short weeks, only to come roaring back by the end of the second quarter, gaining 39.31% since the market low on March 23, 2020.

Here is an interesting investment strategy.

Why Not Do Both?

In our current market environment, investors sitting in cash may be torn by wanting to wait and see if the market will go down, or invest now as they see the market march higher. All this puts them in a position to attempt a task that is almost impossible to consistently do. That is, time the market.

"I can't recall ever once having seen the name of a market timer on Forbes' annual list of the richest people in the world. If it were truly possible to predict corrections, you'd think somebody would have made billions by doing it." - Peter Lynch

The purpose of this white paper is to explain an investment strategy that relies on a calm, steady, and common sense approach when dealing with a market environment like the one we are seeing right now and avoids the historic pitfalls of emotional market timing.

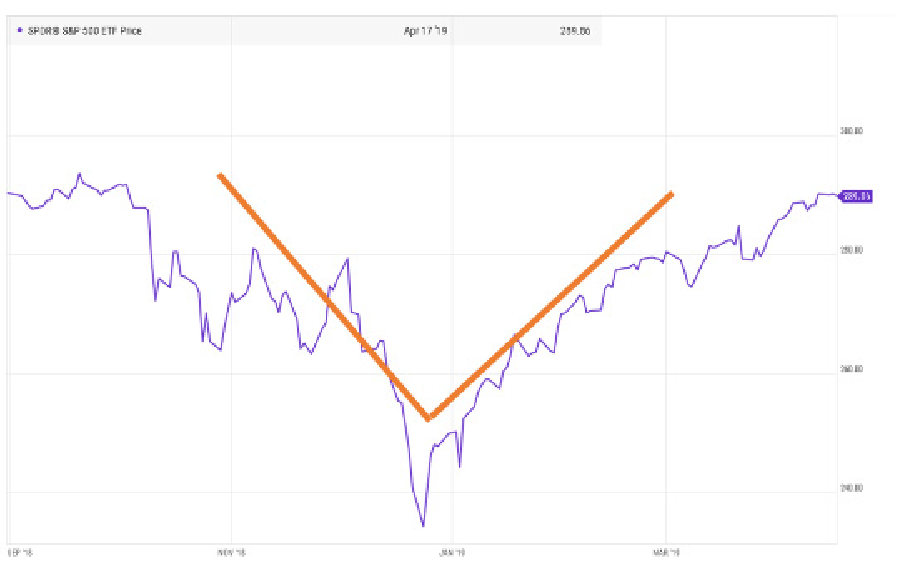
This strategy, Dollar Cost Averaging, almost feels as if it were made specifically for the environment we are in right now. It creates an unemotional strategy to put money to work in the market regardless of whether we see a V, W, U, or L-shaped recovery.

Why Does This Make Sense Now?

The reason that Dollar Cost Averaging works in our current environment is because it takes the emotion out of investing and gives the investor the opportunity to benefit no matter what letter-of-the-alphabet recovery we see following the coronavirus.

While we have no way of knowing what type of recovery the markets will make, here are some of the environments in which Dollar Cost Averaging could be beneficial:

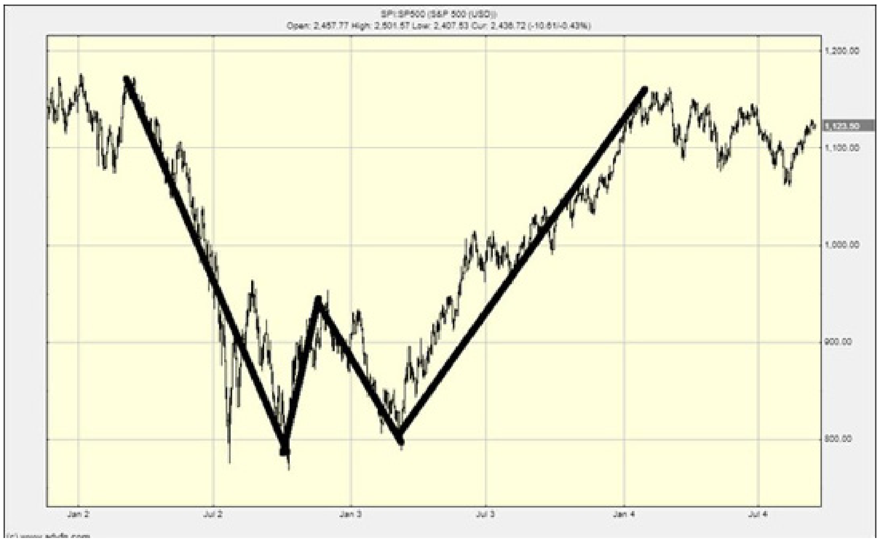
V-Shaped Recovery:



Source: https://www.alexisadvisors.com/blog2/2019/04/18/whipsaws-whiplash-and-algos

A V-shaped recovery is a sharp economic decline followed by a quick and sustained recovery.(1) If an investor were to implement Dollar Cost Averaging and we saw this type of recovery, they would experience the benefit of having money invested while the market was climbing higher, as opposed to sitting on the sidelines and missing out on potential gains.

W-Shaped Recovery:



Source: https://eresearch.com/2020/03/27/eresearch-reports/analyst-articles/will-the-stock-market-bounce-be-a-v-or-w-shaped-recovery/

A W-shaped recovery begins in a V shape, but then turns back down after showing false signs of recovery (2). This is great because when the market begins to come down, the investor continues to buy more shares at a lower price.

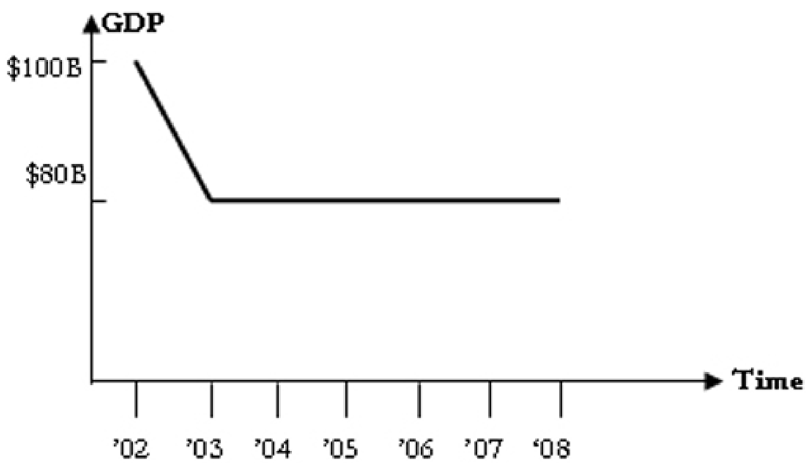
U-Shaped Recovery:

Source: https://www.tradingview.com/ideas/dia/

A U-shaped recovery is an economy gradually climbing out of a recession environment, typically over a period of 12 to 24 months. (3). Investors benefit in this market environment because they continue to purchase shares at a lower price.

L-Shaped Recovery:

An L-shaped recovery is a type of economic recession and recovery characterized by a steep decline in economic growth followed by slow recovery (4). This type of recovery gives the investor the opportunity to invest in the lower market and buy more shares at a lower price.



Source: https://investinganswers.com/dictionary/l/l-shaped-recovery

Key Takeaways

In our opinion, Dollar Cost Averaging is a beneficial investment strategy no matter what type of recovery we ultimately see.

Right now, we are dealing with a virus that few know much about and has a recovery time that is unpredictable. However, once a vaccine is created, life will go back to normal. It's important to remember that markets typically move in anticipation of the economy getting better. This would imply that markets will start to move higher, long before the last person is healthy. As an example, in 2009, when the markets hit bottom on March 9th, from that point until the end of June, the market was up a little over 36%. However, we did not exit the recession until June of that year.

It is important to understand that Dollar Cost Averaging will not protect an investor from loss and will not guarantee a profit. However, we believe that Dollar Cost Averaging has the potential to make what we feel is a significant difference when investing in our current market.

For this reason, we believe that Dollar Cost Averaging could be the vaccine that investors are looking for to prevent the anxiety and fear that emotional market timing creates.

Disclosures:

6256 Greenwich Dr. Ste. 550, San Diego, CA 92122 | 800.442.4358 | www.dunham.com