Invest it all today or average in?

Investing in the stock market is a terrific way to grow your wealth over time, but volatile markets may often dissuade investors from fully benefiting from long-term compounding. Markets can fluctuate wildly day-to-day and make investors nervous about getting started.

One way to mitigate short-term volatility is to dollar cost average into the market. This strategy involves gradually investing a percent of your cash over time, rather than investing a considerable lump sum all at once. Simply put, instead of investing $10,000 at once, you would instead invest $1,000 every month for the next 10 months.

Potential benefits of dollar cost averaging

Averaging into the market can be an effective way to approach investing for a couple reasons.

- Dollar cost averaging helps reduce the risk of buying at the market's peak. If you invest all your money at once and the market drops soon after, you could suffer significant losses. By averaging into the market, you spread your investments out over time and take advantage of market fluctuations, especially if the market is in a decline. If markets are near a peak, the risk of buying at the top is higher and dollar cost averaging might make sense. If the market drops, you'll have the opportunity to invest at lower prices, increasing your potential returns when the market eventually rises again.

- Dollar cost averaging can help reduce the emotional impact of market fluctuations. Investing a large sum of money all at once can be stressful, especially if the market experiences a downturn after you've invested. By investing smaller amounts at regular intervals, you can take a more measured approach and avoid making impulsive decisions based on short-term market movements.

- Dollar cost averaging can also result in investing at a lower average price than the available market price. This is because an investor will buy relatively more shares of a security when prices are low and buy relatively less shares when prices are high. Consequently, over time the average price paid per share will be less than the average price of the security when it was traded in the market.

- Dollar cost averaging can also result in investing at a lower price on *average* than the available market price. This is because an investor will buy relatively more shares of a security when prices are low and buy relatively less shares when prices are high. Consequently, over time the *average price paid per share* will be less than the *average price of* the security when it was traded in the market.

Potential drawbacks of dollar cost averaging

- Averaging into the market can also have drawbacks.
  - The strategy can be time-consuming and requires discipline to stick to a regular investment schedule. It also requires a long-term outlook and patience, as it may take several months or even years to fully invest your desired amount.
  - Investors could lose some upside if the markets rise quickly while they are averaging in.

Without the benefit of a crystal ball to tell investors which direction the market will go in the future, the decision to either average into your portfolio or invest all your cash at once ultimately depends on market conditions, your personal financial goals, and risk tolerance. Please consult with your financial advisor to decide which investment strategy may be best for you.

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