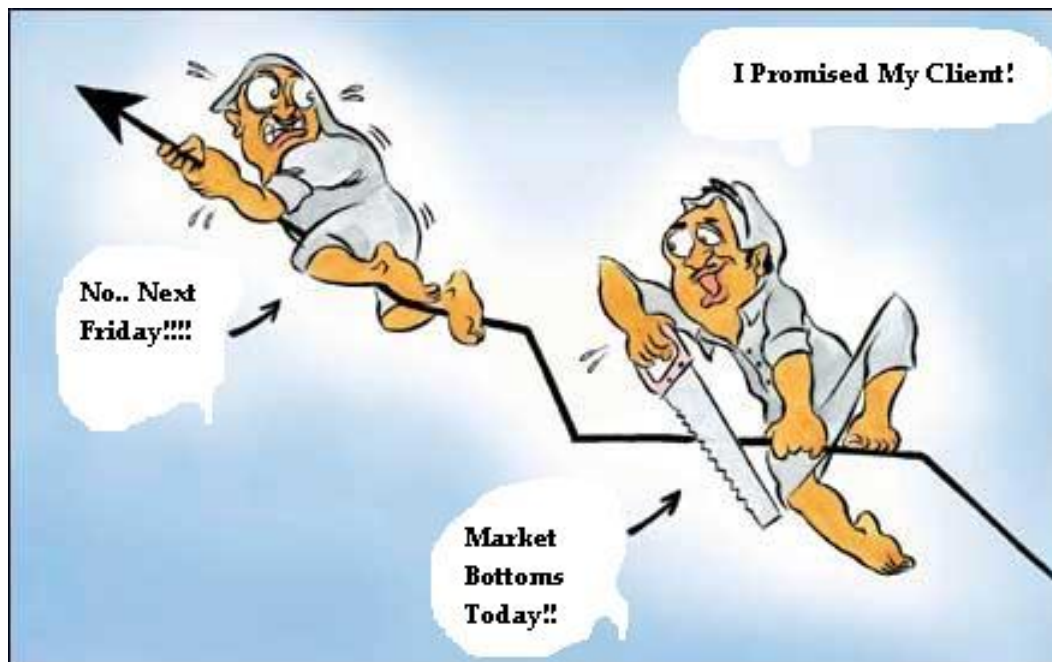


Dollar Cost Averaging



The Big Question on every investor's mind in our current declining stock market is - "When is the market going to bottom out?" Is it today...tomorrow...next week or next year? Everyone wants to buy in at the lowest possible price, but the truth is- no one really knows when it is going to happen. Your guess is as good as mine or any financial guru for that matter!

Fortunately, there is a silver lining in the dark cloud...and it's known as **Dollar Cost Averaging (DCA)**. It is a proven technique of getting to the bottom without all the guessing and gambling!

Dollar Cost Averaging is a strategy which involves investing a fixed amount of money, at regular intervals over a long period in securities which have price variability, such as stocks and some mutual funds. In other words, you are investing the same amount of money in your chosen security regardless of the direction in which the market is moving. Following such a strategy means that you would buy fewer shares per dollar invested when the market is going up and greater shares per dollar when the market is going down. In so doing, you are averaging your cost per share over the period of time in which you are investing. Thus, you are systematically reducing your market risk by spreading your cost over different market prices. The Example below illustrates how using the DCA strategy can not only lower your cost but can also prove to be a valuable way to invest for the long term.

Example: Let's say you got a bonus of \$12,000 in January 2005 and you wanted to invest all of it in Neal and Massy Holdings Limited (NML). You have two options: you

can invest your entire bonus in a lump sum or you can set up a Dollar Cost Averaging plan and invest in the stock gradually over a period of time.

If you took the first option, with your \$12,000, you would have walked away with approximately 245 shares at a price of \$49.00 each (price of NML on Jan 3rd 2005). If you checked up on your investment on October 3rd 2006, it would have been worth \$9,085.71 and thus, you would have made a loss of \$2,914.29- this is of course assuming that you held your 245 shares.

If you went with option two and worked out a plan whereby you invested \$1,500 each quarter starting with January 3rd 2005 as the first investment date, on October 3rd 2006 you would have had approximately 268 shares valued at \$9,942.80, a loss of \$2,057.20 (See Table 1). Thus, as can be seen from the effects of the two options, by choosing the Dollar Cost Averaging strategy over the Lump sum strategy- you have not only decreased your losses and average cost per share , you have also gained by owning more shares.

Example of Dollar Cost Averaging:

Stock: Neal and Massy Holdings Limited

Time Period: 2 years

Investment Amount: \$1,500 on a quarterly basis.

Table 1

Investment Date	Amount Invested	Share Price of NML	# of Shares
Jan-05	\$1,500	\$49.00	30.61
Apr-05	\$1,500	\$51.60	29.07
Jul-05	\$1,500	\$57.01	26.31
Oct-05	\$1,500	\$45.05	33.30
Jan-06	\$1,500	\$44.50	33.71
Apr-06	\$1,500	\$41.50	36.14
Jul-06	\$1,500	\$39.50	37.97
Oct-06	\$1,500	\$37.10	40.43
Total Invested : \$12,000			
Total # of Shares: 267.55			
Average Share Price: \$45.66			
Average Cost per Share: \$44.85			

As seen from the example, in a declining market DCA does not guarantee a profit or protect you from losses. However, imagine the price of NML shoots back up to \$49.00 by the end of December 2006, choosing option one, would mean that you would break even if you decided to sell. While choosing the DCA strategy would mean that you would have made a profit of \$1,132 (268 shares x \$49.00 = \$13,132 less total investment of \$12,000).

Another advantage of using the DCA strategy is that you do not invest all at once which means that the sum not invested in your chosen security can be put into another financial

instrument which can gain interest in the interim. In essence you are profiting twice from your capital.

It is important to note that the above example is using one stock to show the workings of the DCA strategy; however it does not mean that you cannot invest in more than one security at the same time. Thus, you can use dollar cost averaging for your entire portfolio- it would just mean that your fixed contributions would have to match the size of your portfolio in order to main the benefits of diversification.

This brings me to another important point- many people have the conception that they need to save large sums of cash before they can start creating an investment portfolio. It is never too early to start! In fact, as clearly illustrated by the DCA Example, it is even better to invest small amounts at regular intervals over a long period of time. All you need to do is: contact your investment advisor or stock broker, set up an account, decide how much you can invest each month/quarter, etc., choose your security/securities that you want to hold for the long term and start investing!

Also as mentioned previously, this strategy can also be used to purchase units in mutual funds; however not all mutual funds have variability in the price of a unit or Net Asset Value. Funds that will have price variability would be ones that invest in equity and long term fixed income securities such as Treasury Bonds. So for the investor who would like to diversify by investing in a fund that already has a portfolio, this is an effective and also affordable way to do so. Dollar Cost Averaging works especially well for mutual funds because the fees charged are fixed percentage of the installment, thus size is irrelevant. In comparison, you have to buy more stocks in order to benefit from smaller commission charges. Local examples of mutual funds with price variability include: the Roytrin Income and Growth Fund and the Unit Trust Growth & Income Fund.

For investors who have that “bonus” or lump sum, another way to utilize the DCA strategy with mutual funds would be to invest the lump sum amount into a money market fund (which is risk free) and set up automatic fixed payments to be made into an income and growth fund at agreed intervals. This would be an easy and safe way to ensure that a large amount of money is not invested at the wrong time!

So, why get grey fishing for the bottom, when with little effort you can let the bottom come to you! It is impossible to predict market behavior, but by using the Dollar Cost Averaging Strategy you can be sure that you are minimizing your losses or maximizing your gains.