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**EDUCATION**[Learn About DRIPS](#)[Start a DRIP](#)[Glossary](#)[FAQ's](#)**Tuesday, 01/28/2003****DRIP INVESTING**[News and Views](#)[DRIP of the Week](#)[DRIPs A to Z](#)**REFERENCE**[Subscribe!](#)[Free Trial!](#)[Advertise With Us](#)[Terms of Service](#)[Disclaimer](#)[Contact Us](#)[About Us](#)**Dollar-Cost-Averaging: Perfect for the World of DRIPS?**

by Steve Gail

"Yea who of little cash", just remember that if you make timely, And consistent investments, with the intention of continually making those investments for the long haul, at the very least, you gain the discipline of being able to get involved in the stock market and not get overrun by the volatility of violent swings inherent in that market. What "Dollar cost averaging does for the new and inexperienced investor is teaches him or her a psychology, where they as individuals do not overreact to day to day activities that are inherent to a "short term mentality of the market, but rather to a long term mentality. Remember, the whole intent of "dollar-cost-averaging" is to purchase more shares with the same investment dollars, anytime the market is down, and to purchase fewer shares , with the same investment dollars anytime the market is up. Ultimately, a goal would be to have the market trade in a range for an extended period of time, while one is accumulating more shares, and then when they ultimately decide to sell the position, you hope that the shares of the stock are selling at least at a price equal to, if not higher than the initial purchase. In those situations "dollar-cost-averaging will produce a positive long term profit. However, "dollar cost averaging in no way guarantees a profit, even in the long term. Why? The reason is there is no guarantee as to where the security will eventually be trading at when you decide to liquidate your shares. In a downward trending market, one will surely continue to buy more shares at a cheaper price, but all the shares purchased in prior months before, will be lower in value, hence you have all of your preceding investment shares declining in value. As you can see this has only one conclusion: A lot more shares...but at the expense of a much lower account value. But Alas, in the real world, stocks do not go straight up nor straight down, which is one of the reasons that "dollar-cost-averaging has a certain degree of success. Now, let's examine a more likely scenario and see exactly how a slightly volatile stock would perform, with the use of "dollar-cost-averaging" over the course of a year. ( see exhibition A below )

**(Exhibit A:)**

A Dividend Reinvestment Program starting out with an Original Purchase of 1 shares of XYZ at the price of 20 = \$200.00

	AVG \$\$ Invested	Stock Price	# shares purchased per month
January	\$ 50.00	\$ 20.00	2.50
February	\$ 50.00	\$ 18.00	2.78
March	\$ 50.00	\$ 16.00	3.13
April	\$ 50.00	\$ 15.00	3.33
May	\$ 50.00	\$ 17.50	2.86
June	\$ 50.00	\$ 20.00	2.50
July	\$ 50.00	\$ 21.00	2.38
August	\$ 50.00	\$ 22.50	2.22
September	\$ 50.00	\$ 20.50	2.44
October	\$ 50.00	\$ 19.00	2.63
November	\$ 50.00	\$ 18.50	2.70

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