Dollar Cost Averaging (DCA)

Every smart and cautious investor knows that the only way to earn money from investment is "BUY LOWER and SELL HIGHER". However, there're not plenty investors can predict the best bid and ask price precisely.

— Good at using Dollar Cost Averaging (DCA) to help you solve this problem easily. —

What is Dollar Cost Averaging (DCA) ?

- Dollar Cost Averaging is a kind of actuarial financial strategy. It could average the cost while buying the fund units in the long term and also reduce the impact from market volatility in the short term. It is also called "Unit cost averaging" or the "Cost average effect" generally.
- In brief, it is an investment strategy that investors will put fixed money into the investment at regular intervals. (e.g. once monthly)
- Regardless of market long or short position, it is required to invest regularly with fixed amount. You will buy less units when price up and buy more units with the same amount when price down. As a result, DCA can decrease the total cost of the investment. Furthermore, the average per unit cost could be lower than purchase price in the total investment.

Case (1)

Someone invests 400 dollars monthly and begins to buy eggs from 40 dollars per pound (total purchase as below table), gain or lose by selling them with 28 dollars per pound?

Month	Purchase Amount (dollars)	Eggs Price	Quantity (pounds)
1	400	40	10
2	400	32	12.5
3	400	25	16
4	400	16	25
5	400	20	20
6	400	32	12.5
Total	2,400		96

The lowest price

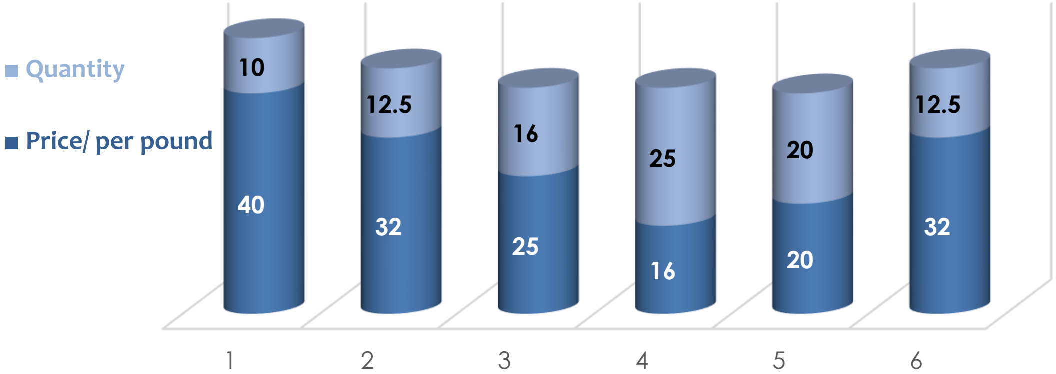
Calculation :

2400 dollars ÷ 96 pounds = 25 dollars / per pound - - > (the average cost)

96 pounds × (28-25) = 288 dollars - - > (profit amount)

288 ÷ 2,400 = 12% - - > (12% profit)

Quantity V.S. Price/per pound



Financial tips 

You can accumulate more units when the price goes down to reduce the cost. Therefore, if you keep buying regularly with fixed amount, you can get the profit immediately and obviously as the price rises up.

Case (2)

No matter what kind of market volatility you encounter, you can get the positive profit eventually.

Times	Amount	Scenario A	Scenario B	Scenario C	Scenario D	Scenario E
1	100	20	20	20	15	20
2	100	18	16	15	14	21
3	100	15	15	10	13	22
4	100	13	13	9	13	23
5	10	12	10	8	14	24
6	100	11	8	7	14	25
7	100	11	7	7	13	26
8	100	10	6	6	12	27
9	100	10	5	6	12	28
10	100	9	5	4	13	29
11	100	9	5	4	13	30
12	100	7	6	5	12	30
13	100	7	6	5	12	31
14	100	8	6	6	13	32
15	100	9	7	7	13	33
16	100	10	7	7	13	34
17	100	12	8	6	14	34
18	100	13	8	6	14	35
19	100	15	8	7	15	36
20	100	15	9	7	16	37
21	100	16	9	6	17	38
22	100	16	10	7	18	39
23	100	17	10	8	19	40
24	100	18	11	9	20	41
25	100	18	12	9	21	42
Total	2,500					
:	:	:	:	:	:	:
Sum of Total Units		214.69	314.78	370.00	176.63	84.17
Current Price		3,864.42	3,777.36	3,330.00	3,709.23	3,535.14
ROI		54.58%	51.09%	33.20%	48.37%	41.41%

Conclusion 

Regardless of market long or short position, investors had better keep purchasing separately and choosing stable investment portfolio to reduce the risk. Since the strength of DCA is that you can accumulate more units when price down, try to not fear when the bear market comes and avoid buying high and selling low. When the price rises, you can sell them out and get more profit easily.