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One Strategy to Make Money in a Down Market

Here's a quiz for you: On October 31, 1929, Jason invests \$100 per month into the Dow. The Dow performs very poorly, and by the end of 1939 (10 years later), it has fallen 46%. What is Jason's return?

- a. 0%
- b. -11%
- c. -46%
- d. +5%

Surprisingly, the answer is d +5%. This is the magic of dollar-cost averaging.

The Dow closed at 273.50 on October 31, 1929. For the next 10 years, only 3 monthly closes were above that mark. And for much of the decade of the Great Depression, the Dow's monthly close were less than 150. So how did dollar-cost-averaging earn a positive return over those periods?

Dollar-cost averaging is achieved by making equal payments at regular intervals - say monthly - over a long period of time, regardless of the unit price. Investing systematically in this way usually results in a lower average unit cost over time. Dollar-cost averaging has some

clear advantages in a declining or fluctuating market. An investor who bought the Dow in 1929 and held it until 1939 would have seen a -46% return. But because Jason invested a regular amount each month, he bought more units when the price was down. From 1932-1934, the Dow never closed above 100. In these months, Jason would have gotten a lot more for his money. This strategy adds up to a nominal return of 5% during the period.

For more information on this and other strategies to bullet-proof your portfolio, please contact us at info@capital-wealth.ca or call us directly at 905-682-5789

