

AFM News and Views

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Dollar-cost averaging: A crucial investing strategy for a potentially rocky year

Source: The Motley Fool

How will the stock market fare in the coming year? Will it crash like it did back in March 2020? Or will stock values stay strong as the U.S. works to end the pandemic and boost its sluggish economy?

Without a crystal ball, it's impossible to say. That's why 2021 could wind up being a challenging year for investors. But with the right tactics, you can grow your wealth – no matter what the stock market throws your way.

A crucial strategy for a potentially rocky year

If you're not sure how to approach the stock market in 2021, then it pays to employ one easy strategy – dollar-cost averaging. With dollar-cost averaging, you commit to buying stocks at preset intervals, regardless of what their prices look like at the time. For example, you may decide you'll invest \$100 in the stock market every Tuesday morning in 2021. From there, you could put that money into a few specific stocks on your list, or put that cash into index funds, which give you exposure to the broader market. Or, do a combination. The choice is yours.

Dollar-cost averaging is an important strategy that's been known to help investors pay a lower average share price for their stocks over time than what they'd pay if they attempted to time the market. Also, it takes guesswork out of the equation. If you know you'll be investing a certain amount of money at a certain time no matter what, you won't have to sit there wondering whether you're making the right call and buying at the right opportunity.

You can implement a dollar-cost averaging strategy in a number of ways. You could commit to transacting in your brokerage account at predetermined intervals (many accounts let you set up an automatic trading plan), or you could sign up for your employer's 401(k) plan and have contributions deducted regularly from your paychecks. For the latter, you'd simply decide what funds your money should go into (you can't buy individual stocks in a 401(k) plan) and your payroll department will take care of moving the money where it needs to go.

What about the drawbacks?

The disadvantages of dollar-cost averaging are few. The primary drawback is the potential costs involved in making frequent trades. If you're charged a commission for each transaction in your brokerage account and you decide you'll be buying stocks every week or every month, you'll rack up more fees than you would if you were to make just a few lump-sum stock purchases during the year.

Also, in some cases, you could miss out on gains with dollar-cost averaging. Say you've committed to buying \$100 worth of shares of a specific stock every Tuesday, regardless of price, only one week, that stock price really drops. If you stick to your strategy and don't buy more shares that week, you could miss out on subsequent gains. That said, the whole point of dollar-cost averaging is to not time the market, which has, historically, proven to be ill-advised.

Take emotion out of the picture

When it comes to investing, you're better off being driven by logic than by fear or impulsiveness. In this regard, dollar-cost averaging could really work to your advantage, especially in the coming year. If you've never tried dollar-cost averaging before, give it a go in 2021. You may be pleasantly surprised at how well it works out.

“How Old is Old?”

Source: The Pew Research Center.

Researchers asked nearly 3,000 adults, from age 18 to over 65, when they considered a person to be old. Not surprisingly, the starting point for when old age begins depends on who you ask:

- The average response of adults under 30 is that old age begins at 60. More than half of them said old age actually begins before people hit their 60th birthday.
- Adults between the ages of 30 and 49 think old age begins at 69.
- People who are currently age 50 to 64 believe old age starts at 72.
- Respondents who are 65 and older say old age begins at 74.

What is interesting is that among the respondents who were 65 to 74, only 21% said they feel old. Even among those 75 and older, just 35% said they feel old. So, the saying is true: You're as young as you feel!

WEEKLY UPDATES ARE AVAILABLE

LPL Financial's **Weekly Market Commentary** and **Weekly Economic Commentary** can be found on LPL Financial's website (http://www.lplfinancial.com/learning_center/research/).

OTHER UPDATES AVAILABLE FROM LPL RESEARCH DEPARTMENT

- Daily market update: <http://LPLresearch.com>
- YouTube Channel: <http://www.youtube.com/lplresearch> (which can also be found on our website)

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Till next month,

The Alltrust Team

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Dollar cost averaging involves continuous investment in securities regardless of fluctuation in price levels of such securities. An investor should consider their ability to continue purchasing through fluctuating price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.