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Dollar Cost Averaging



February 28, 2008

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Dollar Cost Averaging

If you haven't started investing towards a long-term goal because you're worried about short-term market volatility, consider using a popular investment strategy called dollar cost averaging. Dollar cost averaging takes some of the guesswork out of investing in the stock market. Instead of waiting to invest a single lump sum until you feel prices are at their lowest point, you invest smaller amounts of money at regular intervals, no matter how the market is performing. Your goal is to reduce the overall volatility of your portfolio by purchasing more shares when the price is low and fewer shares when the price is high. Although dollar cost averaging can't guarantee a profit or protect against a loss in a declining market, over time your average cost per share is likely to be less than the average market share price.

How does dollar cost averaging work?

To illustrate how dollar cost averaging works, let's say that you want to save \$3,000 each year for your child's college education. To reduce the risk of buying when the market is high, you decide to invest \$250 in a mutual fund each month. As the following chart shows, this approach can help you take advantage of fluctuating markets because your \$250 automatically buys fewer shares when prices are higher and more shares when prices are lower.

Month	Investment amount	Market price per share	Number of shares purchased
January	\$250	\$10	25
February	\$250	\$10	25
March	\$250	\$11	22.72
April	\$250	\$12	20.83
May	\$250	\$11	22.72
June	\$250	\$13	19.23
July	\$250	\$14	17.86
August	\$250	\$13	19.23
September	\$250	\$14	17.86

October	\$250	\$12	20.83
November	\$250	\$10	25
December	\$250	\$11	22.72
This chart is a hypothetical example and does not reflect the return of any specific investment.			

If you calculate the average market price per share over the 12-month period (\$141 divided by 12), the result is \$11.75. However, if you calculate your average cost per share over the same period (\$3,000 divided by 259 shares), you'll see that on average, you've paid only \$11.58 per share.

Putting dollar cost averaging to work for you

You may not realize it, but if you're investing a regular amount in a 401(k) or another employer-sponsored retirement plan via payroll deduction, you're already using dollar cost averaging. In fact, you can use dollar cost averaging to invest for any long-term goal. It's easy to get started, too. Many mutual funds, 529 plans and other investment accounts allow you to begin investing with a minimal amount (e.g., \$50), as long as you have future contributions deducted regularly from your paycheck or bank account.

If you're interested in dollar cost averaging, here are a few tips to help you put this strategy to work for you:

- Get started as soon as possible. Once you've decided that dollar cost averaging is right for you, start investing right away. The longer you have to ride out the ups and downs of the market, the more opportunity you have to build a sizeable investment account over time.
- Stick with it. Dollar cost averaging is a long-term investment strategy. Make sure that you have the financial resources and the discipline to invest continuously through all types of markets, regardless of price fluctuations.
- Take advantage of automatic deductions. Having your investment contributions deducted from your paycheck or bank account is an easy and convenient way to invest, and can help you get in the habit of investing regularly.

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