



What is Value Averaging?

Value Averaging is a nice way to ensure you follow one of the most well known investment mandates: **buy low and sell high**. This method is particularly valuable during times of high volatility to help ensure investors maintain discipline in their investing.

The Concept

Dollar cost averaging is simple in concept: Invest a fixed amount at equal intervals and continue to do so over a long period. The result is that more shares of a stock or mutual fund are purchased when prices are relatively low and less are purchased when prices are relatively high. This can result in lower average per share cost over time. Dollar cost averaging is a “Buy low, buy less high” strategy, as there are no rules for selling.

Value Averaging is a variation: Instead of investing a fixed amount each interval, the amount invested varies so that the total value of the investment increases by a fixed sum or percentage each interval. If share price increases alone cause the total value of the investment to increase above the planned fixed amount, then the fund must sell shares instead of adding to the investment.

Value Averaging (like Dollar Cost Averaging) helps investors to tide over market volatility without worrying too much about market timing. Neither approach requires a forecast of market direction. And with both plans, the discipline of periodic investment during all market situations and the continuation of the plan over long investment periods – of 5 years, 10 years, 20 years or even longer - provides substantial benefits.

What makes this fund different and why it works

- Value Averaging results in a net average cost per share that is much lower than the average cost per share with Dollar Cost Averaging.
- There is often a tendency to sell shares when the share price is high; the best Dollar Cost Averaging can do is buy fewer of the more expensive shares.
- Value Averaging takes a more extreme response to market dips and rises than does Dollar Cost Averaging. The return is enhanced greatly by the larger purchases at low prices and by the profit taking as shares are sold at generally higher prices.
- Value Averaging forces you to avoid big moves into a peaked market or panic selling at the bottom
- Value Averaging tends to provide the highest returns in the stock market over short to immediate term investment periods.