

Ringgit Cost Averaging

Introduction

“If I have noticed anything over these 60 years on Wall Street, it is that people do not succeed in forecasting what’s going to happen in the stock market.”

– Benjamin Graham, author of “The Intelligent Investor”

Investing would be so simple if only one could predict when is the best time to buy or sell. However, timing the market is impossible and many have made huge losses due to trying and consequently failing. One of the ways to ride out the ups and downs of the constant volatility of the stock market is to use ringgit cost averaging. This method ensures we benefit from the historical strong returns shown in the long run and hedges the effects of retracement and slight downtrend in the short term.

Ringgit cost averaging is an investment technique intended to reduce exposure to risk associated with making a single large purchase by investing a fixed amount on a particular investment (such as unit trusts) at regular intervals (either monthly or quarterly), regardless of the unit price. For example, you can choose to transfer RM500 to RM1,000 from your paycheck to a unit trust fund or you can even make a RM1,500 or RM3,000 investment every quarter. The amount and frequency of your investments depend on your financial means and future goals.

How Dollar Cost Averaging Works

“Save little save often – dollar (ringgit) cost averaging works, if you stick to it.”

– Paul Clitheroe, “Ten Key Steps to Wealth”, 2002.

To illustrate dollar cost averaging better, let’s say you want to save RM12,000 each year for your child’s education fund. Instead of investing it in a lump sum and bear the risk of entering when the market is high, you decided to invest RM1,000 into a unit trust fund each month as shown in the chart:

Month	Investment Amount (RM)	Price Per Unit (RM)	Number of Units Purchased
January	1,000	0.2549	3,923.11
February	1,000	0.2261	4,422.82
March	1,000	0.2068	4,835.59
April	1,000	0.1846	5,417.12
May	1,000	0.1645	6,079.03
June	1,000	0.1589	6,293.27
July	1,000	0.1477	6,770.48
August	1,000	0.1617	6,184.29
September	1,000	0.1947	5,136.11
October	1,000	0.2035	4,914.00
November	1,000	0.2248	4,448.40
December	1,000	0.2510	3,984.06
Total	RM12,000		62,408.28

Results

Average Cost Per Unit	RM0.1923
Unit Price as at December	RM0.2510
Value of Investment as at December	RM15,664.48

In this example, by using the method of ringgit cost averaging, the average cost per unit invested was only RM0.1923, instead of RM0.2549 if the investor has invested a lump sum in January.

A Long-term Investment Strategy

“Discipline is the key to success for the long-term investor. He or she must not fall into the trap of managing holdings by newspaper headlines, sound bites, mindless predictions, gut feelings or the last time period results.”

– Frank Armstrong, author of “The Informed Investor.”

Regardless of the amount of money invested, dollar cost averaging is a long-term strategy. While the financial markets tend to fluctuate, they often move in the same direction over fairly long periods of time. Bear markets and bull markets can last for months, and sometimes even years. Because of these trends, dollar cost averaging may not be as effective if only applied for the short-term.

For example, an investor might choose to make 10 purchases of a unit trust fund within one month. Although it is highly unlikely that the purchase price of the units will be the

same for each transaction over such a short time frame, there will not be a significant difference as well.

However, over the course of a longer market cycle, you would probably go through a bull market and a bear market, with the price of a given security changing considerably. Dollar cost averaging will help ensure that your average cost per unit represents both the premiums of a bull market and the discounts of a bear market, as opposed to just the premiums usually paid by investors in a bull market.

Tips to Get you Started

“Those who put an investment programme in place will have a lot more money when they come to retire than those who never get around to it.”

- Australian financial author Noel Whittaker.

Many unit trust funds allow you to begin investing with a minimal amount with the option to make further contributions through regular deductions 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.** The longer you have to ride the ups and downs of the market, the more opportunity you have to build a sizable account over time.
- **Stick with it.** Dollar cost averaging is a long-term strategy. Make sure that you have the financial resources and 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 method to invest, and can help you get into the habit of investing regularly.
- **Be prepared for losses.** Dollar cost averaging does not guarantee that there will always be profits and no losses in your portfolio. Even though you paid a lower average cost than the average price of the units, you could still lose money if you choose the wrong time to exit the market, particularly when prices are low.

Building wealth by investing in unit trusts is more a matter of patience and persistence than of investment skill and luck. The major decision that must be made is whether or not you are willing to forego immediate gratification to achieve your long-term financial goals. If you are, then dollar cost averaging can be a very effective way to help you get there.