

# Pound-cost averaging

Increasing the long-term value of your investments

It's natural to be looking for ways to smooth out your portfolio's returns. Investing regularly can smooth out market highs and lows over time. In a fluctuating market, a strategy known as 'pound-cost averaging' can help smooth out the effect of market changes on the value of your investment and is one way to achieve some peace of mind through this simple, time-tested method for controlling risk over time.

It enables investors to take advantage of stock market corrections, and by using the theory of pound-cost averaging you could increase the long-term value of your investments. There are however no guarantees that the return will be greater than a lump sum investment, and it requires discipline not to cancel or suspend regular Direct Debit payments if markets continue to head downwards.

## REGULAR INTERVALS

The basic idea behind pound-cost averaging is straightforward: the term simply refers to investing money in equal amounts at regular intervals. One way to do this is with a lump sum that you'd prefer to invest gradually – for example, by taking £50,000 and investing £5,000 each month for 10 months.

Alternatively, you could pound-cost average on an open-ended basis by investing, say, £5,000 every month. This principle means that you invest no matter what the market is doing. Pound-cost averaging can also help investors limit losses while also instilling a sense of investment discipline and ensuring that you're buying at ever-lower prices in down markets.

## MARKET TIMING

Investment professionals often say that the secret of good portfolio management is a simple one – market timing. Namely, to buy more on the days when the market goes down, and to sell on the days when the market rises.

As an individual investor, you may find it more difficult to make money through market timing. But you could take advantage of market down

days if you save regularly by taking advantage of pound-cost averaging.

## SAVINGS HABIT

Regular savings and investment schemes can be an effective way to benefit from pound-cost averaging, and they instil a savings habit by committing you to making regular monthly contributions. They are especially useful for small investors who want to put away a little each month.

Investors with an established portfolio might also use this type of savings scheme to build exposure a little at a time to higher-risk areas of a particular market.

The same strategy can be used by lump sum investors too. Most fund management companies will give you the option of drip-feeding your lump sum investment into funds in regular amounts. By effectively 'spreading' your investment by making smaller contributions on a regular basis, you could help to average out the price you pay for market volatility.

## POUND-COST AVERAGING

Any costs involved in making the regular investments will reduce the benefits of pound-cost averaging (depending on the size of the charge relative to the size of the investment and the frequency of investing).

As the years go by, it is likely that you will be able to increase the amount you invest each month, which would give your savings a valuable boost. No matter how small the investment, committing to regular saving over the long term can build to a sizeable sum. The key to success is giving your investment time to grow. Choose the amount you want to invest and set up automatic

deposits. Once this is up and running, the chances are you won't even notice it going out of your monthly budget. ■

## MAKING THE RIGHT INVESTMENT CHOICES

To make the right investment choices, you need to ask the right questions. And when it comes to answering those questions, we can help you find the best way forward. If you would like to get a sound point of view about what may be right for your unique situation, please contact us. We'll review and discuss your financial situation, help you set goals, suggest specific next steps, discuss potential solutions and provide ways to help you stay on track.

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