Manulife
Investment Management

Dollar cost averaging: **An easier way to navigate volatile markets**

Can you predict the increase (or decrease) in the closing value of the emerging-market equity index three years from now? Without a crystal ball, it is impossible to correctly estimate future market trends, not to mention the ability to identify the best time to invest. If investors wish to reduce volatility and benefit from long-term growth when the markets move up and down, the automatically executed strategy of dollar cost averaging may be a feasible choice.

1.

What is dollar cost averaging?

It is the practice of regularly investing a fixed dollar amount in a specific investment – regardless of fluctuations in the market price. As a result, an individual buys more units when prices are low and fewer units when prices are high. This technique reduces the effects of short-term market fluctuations on investments by averaging out the costs of units over time.

2.

Why use this strategy?

Financial markets fluctuate, so it is often difficult to choose the best time to invest.

No single investment strategy guarantees easy profits or significant returns. So, it's important to find a viable long-term approach that matches your risk appetite, financial goals, and budget. Here are the merits of dollar cost averaging:

- **Investors regularly invest fixed sums of money based on pre-set orders,** regardless of market conditions. **Investments made under this strategy are usually smaller than lump-sum amounts. Therefore, it is suitable for investors with a lower risk appetite, less time to spare on closely following the relevant asset prices, or those with limited funds.**
- When there are unanticipated market movements (notable rises or falls), inexperienced investors could panic and make irrational decisions, such as buying high due to a fear of missing out on market rallies or selling low to avoid further losses because of falling markets. However, dollar cost averaging **helps alleviate the potential negative effects of irrational "active trading" on investment returns.**
- When markets are volatile, it is possible to accumulate more units at lower prices, probably resulting in a lower average investment cost than with a lump-sum approach during the entire investment period, which helps diversify risk. **If underlying asset prices stabilise or even trend upwards during times of uncertainty, investors may earn positive returns at the end of the period and may even outperform lump-sum investing** (see the following example).

However, if financial markets move higher for a prolonged period, this strategy may sacrifice the potential gains from an initial lump-sum investment.

MSCI Emerging Markets Gross Total Return Index

For illustrative purposes only.

1. July 2018: The US and mainland China both place tariffs on selected bilateral imports.

2. May 2019: India's Narendra Modi is re-elected as prime minister with a focus on lifting growth built on the reform foundation of his first term.

3. April 2020: US crude oil prices turn negative.

4. August 2020: Mainland China announces "Three Red Lines" policy to reduce debt-level of the property development sector.

5. September 2021: A leading mainland Chinese property developer faces the risk of a potential default.

6. February 2022: Russia launches military actions in Ukraine.

7. December 2022: Mainland China further optimises its COVID-19 response by releasing 10 new measures.

8. February to March 2023: Mainland China fully reopens its borders since the COVID-19 erupted.

9. March 2023: The US regional banking crisis emerges.

10. April to June 2023: Mainland China's economic reopening loses momentum.

11. July 2023: The Fed keeps rates on hold for the first time since March 2022 (the month it began post-COVID rate hikes).

12. October 2023: Israel-Gaza conflict

13. December 2023: The Fed signals its first rate cut since COVID-19 will occur in 2024.

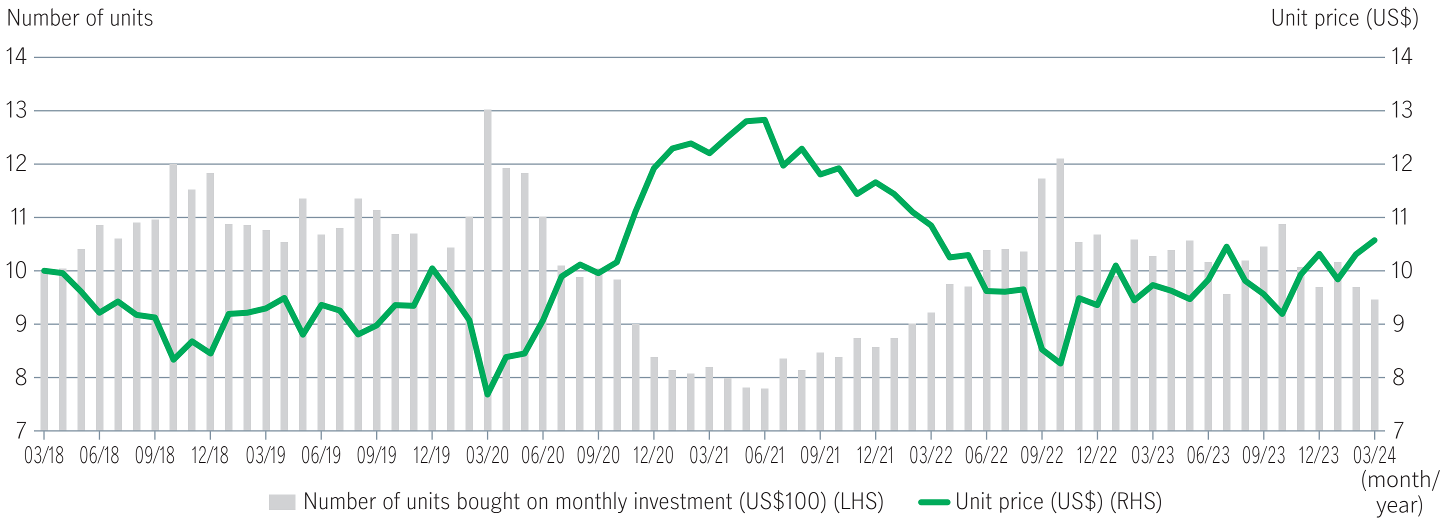
14. January to February 2024: The People's Bank of China reduces the banks' reserve requirement ratio and the loan prime rate for borrowers.

15. March 2024: The Bank of Japan exits negative rates.

Source: Bloomberg and MSCI, from 30 March 2018 to 29 March 2024. * represents the total return from 30 March 2018 to 31 December 2018. ** represents the total return from 29 December 2023 to 29 March 2024. Total returns in US dollars.

Hypothetical example: Lump sum investment versus monthly investment (dollar cost averaging)[1]

	Lump Sum Investment	Dollar Cost Averaging
Investment	MSCI Emerging Markets Gross Total Return Index	
Investment period	30 March 2018 – 29 March 2024 (72 months)	
Total investment amount	US$7,200	US$7,200 (US$100 X 72 months)
Unit price on 30 March 2018	US$10	
Unit price on 29 March 2024	US$10.57	
Total number of units bought	720	**738.67 (more units)**
Average cost per unit	US$10	**US$9.74 (lower cost)**
Total investment value as of 29 March 2024	US$7,612.04	US$7,809.45
Return for the whole investment period	US$412.04 (+5.72%)	**US$609.45 (+8.46%) (higher investment return)**



3.

Investment acumen is the key to lump-sum investing success

The lump-sum approach could be more familiar to investors, many of whom already have relevant experience with equities, bonds, and funds. While both strategies have their own unique characteristics, returns may vary significantly under different market conditions. Market consensus leans towards a belief that if asset prices keep rising, then lump-sum investing can provide better returns for calm and seasoned investors, but we should also bear in mind that:

- The key to success with lump-sum investing is capturing the best time to enter or exit markets. However, in real cases, buying low and selling high is not easy.
- Experienced investors can often manage their emotions and deal with market movements calmly and flexibly.
- Inexperienced investors tend to predict the market, overreact to temporary market shifts, and finally quit with a big loss.

1 Source: Bloomberg and MSCI, as of 29 March 2024. Total returns in US dollars. Index value is rebased as US$10 (initial unit price) on 30 March 2018 rebased unit price. As of 29 March 2024, the geographical allocations of MSCI Emerging markets index are as follows: China (25.13%), India (17.7%), Taiwan (17.63%), South Korea (12.82%), Brazil (5.23%) and others (21.49%). The example mentioned is for illustrative purpose only. The information neither indicates any actual portfolio holdings nor constitutes any investment recommendation or advice. Different investments have different volatile patterns. Past performance is not an indicative of future performance. It is not possible to invest directly in an index.

4.

A systematic investment strategy, by nature, requires active implementation

Time in the market should always be better than timing the market. Investment is a long-term venture that can potentially reward the patient with positive returns, while impulsive investors may experience losses.

Dollar cost averaging provides investors with a disciplined investment strategy that is easy to apply. Once the instruction is set, this approach automatically allocates regular fixed amounts regardless of market conditions and psychological factors, which helps avoid erroneous decisions. If investors believe this strategy could help them achieve their goals, they should actively identify assets with long-term growth potential and initiate a monthly investment plan.