

ARE MARKET FLUCTUATIONS GETTING YOU DOWN?

## **Try dollar-cost averaging** *and allow market volatility to work for you*

Dollar-cost averaging is the process of investing equal amounts of money at regular intervals, usually monthly or quarterly, regardless of how the markets are performing. You buy more units

of a fund when the price is lower and fewer units when the price is higher, reducing the average cost of your mutual fund units.

### **DOLLAR-COST AVERAGING VERSUS LUMP SUM CONTRIBUTIONS**

Dollar-cost averaging differs from lump sum contributions because it involves buying units at fluctuating market values. For example, when you contribute regularly to an RRSP or alternative savings plan where the underlying value of the investment fluctuates, what you are doing is dollar-cost averaging. With a lump sum contribution you purchase those units at one point in time and may not capitalize on fluctuations in the underlying price.

### **A STRATEGY FOR VOLATILE MARKETS**

Over the long term, the financial markets have generally followed an upward trend. But as many investors will surely attest, there has been considerable volatility along the way. Therefore you should only consider dollar-cost averaging if you are committed to a long-term strategy. That way, you'll take full advantage of future market ups and downs.

### **HOW CAN I ENSURE DOLLAR-COST AVERAGING WORKS FOR ME?**

The success of dollar-cost averaging depends on you making regular contributions at regular intervals – in up *and* down markets. The patient investor who contributes a fixed amount of money in installments reduces the loss that would occur if the market declined dramatically after a single lump-sum investment was made.

### **DOLLAR-COST AVERAGING AND RRSPs**

Many people do not invest in RRSPs because they feel they do not have enough money to contribute at the end of the year. But with dollar-cost averaging, you can set aside a predetermined sum every month and contribute to your investments.

Mutual and segregated funds are an ideal way for investors to apply the dollar-cost averaging technique. Manulife Investments makes dollar-cost averaging easy with access to our diversified products and services using a pre-authorized chequing (PAC) plan. A PAC allows you to set aside as little as \$25 per month or \$30 per month towards one of our mutual funds or segregated funds, respectively.

## START YOUR SAVINGS PLAN NOW!

Contributing regularly to a savings program is a practice that is hard to fault. After all, time can be your greatest ally when it comes to investing since the benefits of compounding can really pay off. By

incorporating dollar-cost averaging as part of your long-term financial plan, you can get a head start on your retirement savings today.

Talk to your financial advisor about setting up a dollar-cost averaging plan that will work for you.

## DOLLAR-COST-AVERAGING AT WORK

When you invest a fixed amount in installments as the unit cost fluctuates, you end up with an average unit cost that is lower than the average unit price over the period. The following examples illustrate how dollar-cost averaging works in various markets.

**RIISING MARKETS:** The investor's average unit cost is always lower than the current unit price during this period. The historical upward trend of capital markets suggests this is the most likely scenario for investors with long-term time horizons.



**FLUCTUATING MARKETS:** Purchasing units under volatile conditions effectively 'smooths' average prices so that you are not exposed to the risk of buying units at the peak of period market upturns.



**DECLINING MARKETS:** Long-term investors reduce the effects of market risk by buying more units at lower unit prices.



### Assumptions:

- Annual investment is \$1,000 with equal monthly payments
- Unit price starts at \$10
- Investment period is ten years

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund and segregated fund investments. Please read the prospectus or information folder before investing. Investment returns are not guaranteed, their values change frequently and past performance may not be repeated.

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