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How Does Dollar-Cost Averaging Work?

Investing can feel complicated, but there are simple ways to get started and build good habits without the stress. Dollar-cost averaging (DCA) can help you stay disciplined and help you navigate the unpredictable nature of the market.

And if you have a 401(k) or Roth IRA, you're already implementing this strategy without even knowing it.

What Is DCA?

DCA is an investment strategy that involves investing a set amount of money at regular intervals. This strategy is often contrasted with lump-sum investment, which involves making a larger investment at one point in time.

Your 401(k) contributions are an example of DCA; a portion of each paycheck goes into your retirement account.

What Are the Potential Benefits?

Investment Discipline: DCA can help you build a positive investment habit. When you commit to a certain amount to invest regularly, you can minimize the temptation to spend that money elsewhere.

Lower Risk: Market volatility is a reality of investing. The DCA approach can help minimize your losses. For example, you would lose less in the short term on a monthly investment amount than you would major lump-sum investment.

Additionally, the steady nature of the DCA approach can keep you from making knee-jerk reactions to market volatility. If you are concerned about risk and market fluctuations, the DCA approach may be appealing.

What Are the Potential Limitations?

Missed Gains: Risk versus reward is a fine balance to walk in investing. Typically, more risk comes with the potential for more reward, and more losses. While the DCA approach shields you from some risk, it also means you may have lower returns.

Investment Complacency: While the set schedule of DCA can help you build a habit, relying solely on this passive investment approach can lead to missed opportunities.

Every financial situation is unique. If you have questions as you build out your strategy, get in touch today.

Financial Planning may help your dreams come true!

Simple, Smart, and Effective financial planning may help you build wealth. Our strategies and hands-on approach may help you increase savings, lower taxes, provide customized investment advice, help you secure your retirement and more. Together, we will help you build a plan toward making your dreams come true.

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