One of the most important benefits of investing in mutual funds is that fund companies make it easier for you to invest on a regular basis. This is an important foundation for accumulating wealth, but also for helping to manage the ups and downs of the market.

Try dollar cost averaging

Dollar cost averaging is simply the practice of investing a predetermined amount of money at a regular interval, regardless of market conditions. The amount you invest is constant, so you buy more shares when the price is low, and fewer when the price is high. When you do this, the average cost of your shares is typically lower than the average market price per share during the period in which you are investing.

The hypothetical example in the table to the right shows how investing $2,400 over time could yield 257 shares. If you invested the full amount up front at $10 per share in January, you would have acquired only 240 shares.

The power of discipline in investing

By maintaining a consistent monthly investment, you put the market’s volatility to work in your favor.

Dollar cost averaging helps to minimize the market risk of making a lump-sum investment, encourages discipline in investing, and takes the guesswork out of when to invest and may, over time, be an important step on the way to accumulating wealth. As the table below illustrates, a one-time investment of $2,400 in January does not keep pace with dollar cost averaging. In this example, with dollar cost averaging, you own more shares with a lower cost basis.

Dollar cost averaging does not assure a profit and does not protect against a loss in declining markets. Such a plan involves continuous investments in securities regardless of fluctuating price levels and you should consider your financial ability to continue your purchases through periods of low price levels.

Automatic purchases

Your financial advisor can set up monthly buy orders that draw from your checking or other account automatically. If you are interested in implementing an automatic investment plan, please call your RBC Wealth Management® financial advisor.