Have "Investing" as a New Year's Resolution? This Trick Will Guarantee You'll Keep it up All Year

Description

Setting New Year's resolutions is easy. Actually doing them — well, that's another story.

This year, if your goal is sock away some money for investments, there is one trick that'll ensure you follow through with your resolve. It's called *dollar-cost averaging*, and it's fairly simple to start doing.

What is dollar-cost averaging?

When you dollar-cost average, you put equal amounts of money into investments at regular intervals. Instead of depositing a lump sum into your brokerage account all at once, you break your investment money into small chunks.

For example, let's say you want to buy stock in Company A. It's a great company, and the stock has been exploding over the last year. You're afraid, however, that if you invest $1,000 into Company A now, you might buy too high, especially since its stock is at an all-time high. Of course, if you wait, you might miss out on some lucrative gains, especially if the company's stock doesn't drop anytime soon.

This kind of vacillation often paralyzes new investors. But dollar-cost averaging can help. Instead of buying $1,000 stock today, you might buy $200 each month for the next five months. By committing to this schedule, you don't have to worry about "timing" the market. You'll buy $200 of stock, no matter which way the company sways.

Why would you invest like this?

Well, for one, you could end up buying more shares for the same investment price.

As an example, let's say these are the share prices for Company A's stock over five months:

Month Dollar-cost average amount Price per share Number of shares bought

1	$200	$25	8
2	$200	$10	20
3	$200	$5	40
4	$200	$20	10
5	$200	$25	8

In this way, the average share price is $17, and the total number of shares that you purchase is 86. If instead you had purchased $1,000 of stock in the first month, you would have only bought 40 shares at $25 a pop.

Of course, I completely manipulated this example to fit an explanatory purpose. But, in truth, this isn't far from what many investors experience, especially for growth stocks that are extremely volatile.

Another reason to dollar-cost average is to help you invest consistently. Instead of waiting to "time the market," as some new investors try to do, you keep investing your money. This ensures that you're not missing out on any investment gains as well as helping you create good habits early on.

Is dollar-cost averaging right for you?

Dollar-cost averaging is a fairly easy investment strategy for investors, especially those who are just starting. But don't take it from me. Warren Buffett sums it up nicely:

> *"If you like spending six to eight hours per day working on investments, do it. If you don't, then dollar-cost average into index funds. This accomplishes diversification across assets and time, two very important things."*
> *—Warren Buffett*

One last suggestion: set up automatic withdrawals from your chequing account to your brokerage. When your paycheque hits the bank, you'll automatically see money in your brokerage account, rather than doing the transfer yourself. This will help you stay invested, without tempting you to spend that money elsewhere.

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