Dollar Cost Averaging (or Not): When to Go for the Big Money!

Description

After a recent article by fellow author Jason Phillips that explained the benefits of dollar cost averaging and how it can help investors avoid headaches, I felt it appropriate to offer readers the flip side of the coin, as opportunity can sometime present itself in a very big way – on short notice.

For the coffee shop investor, dollar cost averaging is without a doubt the way to go. On a regular basis, money is saved and invested in high quality (mostly blue-chip companies) with proven track records of performance and dividend payments. In many cases, the dividend payments increase alongside the share prices, which makes these boring investments extremely profitable. For investors seeking much more exciting opportunities, however, this approach may not be the one that is most often practiced. Case in point: Warren Buffett.

As the world's greatest investor is well known for taking large positions in companies with durable competitive advantages and remaining patient, investors don't always have to wait very long to follow the Oracle of Omaha into another profitable trade. In fact, one of his recent investments in **Home Capital Group Inc.** (TSX:HCG) is taking a little longer to come to fruition than expected.

During the past week, the company reported earnings per share that missed estimates by a penny and led investors to sell out of their holdings, as many now believe that the company has hit a plateau regarding profitability. The opportunity this presents to investors is that shares have retreated to a price of less than $15 in spite of carrying tangible book value of almost $23 per share. Investors prepared to take this risk will receive no dividend payments or cash incentives until they sell out of their shares later on. The question they need to ask themselves in this case: why not dollar-cost-average into the position?

In spite of this being a good approach for many defensive stocks, shares of Home Capital Group are at higher risk and therefore could move substantially higher on very short notice. After reporting earnings of $0.80 over the first two quarters of the year, which leads to a price to earnings ratio of less than nine times (annualized), the value in this name could be realized very quickly. For investors who purchase 300 shares today (at a cost of $4,300), the benefit of ignoring dollar-cost-averaging will be that shares will not need to be purchased at a later time at a higher price. Sometimes when investors buy in multiple increments, the price tag (of $4,300 in this case) increases to a much higher amount.

As is the case for everyday investors (and folks like Warren Buffett), we all want the gains to accrue in our own investment accounts instead of buying at a higher price. For the fantastic opportunities available, "all in" is sometimes the way to go.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/15
Date Created
2018/08/21
Author
ryangoldsman