

Business

Barry Jensen editor/591-2300



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O&E Thursday, February 2, 1994

Dollar-cost averaging works in investor's favor

Many stock market pundits are predicting that in 1984 the Dow Jones Industrial Average will hit 1,500. However, stock market predictions are risky. Even professionals cannot consistently pick the highs and lows. So it might be safe to use the technique popularly known as dollar-cost averaging.

THE BASIC TECHNIQUE. Dollar-cost averaging is relatively simple. It requires only that you invest a fixed number of dollars at regular intervals in the security of your choice, regardless of the price. Carried out over a period of time, this plan will guarantee that your average cost will be less than it would have been if you had bought a fixed number of shares each time. The reason is that the dollars invested buy more shares



finances and you

Sid Mittra

when prices are low; fewer when they are high.

Assume that you had invested \$100,000 a month in a stock whose price was initially \$50 but which declined for three months, then rose for three months. In this specific example, the average price per share works out to \$43.57, but the average cost per share actually purchased is only \$42.94. Though the difference after only seven periods is not great, over a period of years the savings do mount up to

worthwhile proportions, particularly if dividends are reinvested. You also can avoid the common tendency to buy near the top and sell out near the bottom.

Note two caveats: First, the investment should be good quality with growth prospects. Second, the investors should have the resources and discipline to keep buying, no matter what the price of that stock. It will not work if the program is suspended when prices fall.

There are several ways to im-

plement a program using even small amounts of money. Most mutual funds offer accumulation plans with minimums as little as \$25. Many companies offer employees thrift plans whereby investments in the company's stock, or other stocks, may be made through payroll deductions. Around 1,300 companies now offer automatic dividend-reinvestment plans, and most accept new money to be invested in company shares. In most cases, the minimum purchase is \$25, and there is a favorable commission rate or none at all.

If you don't own shares in one of these companies, here is a way to get into the program at a reasonable cost. The National Association of Investment Clubs has a plan whereby an individual member can buy one share in any of two-dozen

selected companies. There is a one-time fee of \$5 for this purchase. Thereafter, you can enroll in the company's automatic dividend-reinvestment plan and make additional periodic investments.

No one can consistently buy low and sell high. But anyone who will use dollar-cost averaging can get into the market at a favorable cost and show good results provided that he or she picks a good investment and sticks faithfully to the program.

SEMINAR: The Observer and Eccentric Newspapers and I will conduct our next financial planning

seminar 8-9:30 p.m., Tuesday, Feb. 7 at the Michigan State University Management Education Center, Troy. Subjects may include: Budget analysis, children's education, tax shelter, stocks and bond investments, wills and trusts, financial independence, inflation problems, interest rates, mutual funds and estate planning. The seminar is free, but registration is required. For more details, call 643-888.

Sid Mittra is president of Coordinated Financial Planning Inc. in Troy and a professor of management at Oakland University in Rochester.



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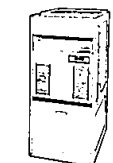
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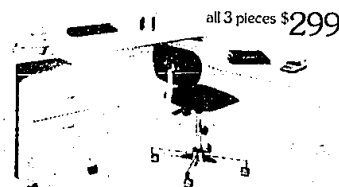
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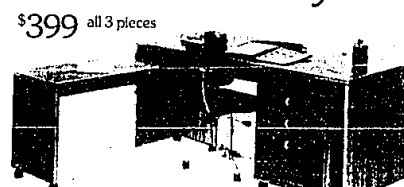
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