



Center for Wealth Management

Susan A. Myers, CPA, CFP®, CLTC
Robert J. Moore
Justin M. Williamson
755 W. Big Beaver Rd, Ste 600
Troy, MI 48084
248-680-0490
smyers1@metlife.com
www.center4wealthmgmt.com



CENTER FOR WEALTH MANAGEMENT
An Office of MetLife

Lump Sum vs. Dollar Cost Averaging: Which Is Better?

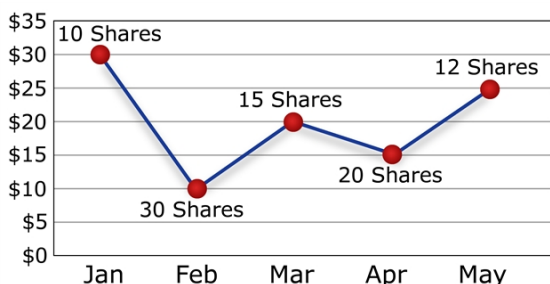


Some people go swimming by diving into the pool; others prefer to edge into the water gradually, especially if the water's cold. A decision about putting money into an investment can be somewhat similar. Is it best to invest your money all at once, putting a lump sum into something you believe will do well? Or should you invest smaller amounts regularly over time to try to minimize the risk that you might invest at precisely the wrong moment?

Periodic investing and lump-sum investing both have their advocates. Understanding the merits and drawbacks of each can help you make a more informed decision.

What is dollar cost averaging?

Periodic investing is the process of making regular investments on an ongoing basis (for example, buying 100 shares of stock each month for a year). Dollar cost averaging is one of the most common forms of periodic investing. It involves continuous investment of the same dollar amount into a security at predetermined intervals--usually monthly, quarterly, or annually--regardless of the investment's fluctuating price levels.



Because you're investing the same amount of money each time when you dollar cost average, you're automatically buying more shares of a security when its share price is low, and fewer shares when its price is high. Over time, this strategy can provide an average cost per share that's lower than the average

market price (though it can't guarantee a profit or protect against a loss in a declining market).

The accompanying graph illustrates how share price fluctuations can yield a lower average cost per share through dollar cost averaging. In this hypothetical example, ABC Company's stock price is \$30 a share in January, \$10 a share in February, \$20 a share in March, \$15 a share in April, and \$25 a share in May. If you invest \$300 a month for 5 months, the number of shares you would buy each month would range from 10 shares when the price is at a peak of \$30 to 30 shares when the price is only \$10. The average market price is \$20 a share ($\$30 + \$10 + \$20 + \$15 + \$25 = \100 divided by 5 = \$20). However, because your \$300 bought more shares at the lower share prices, the average purchase price is \$17.24 ($\300×5 months = \$1,500 invested divided by 87 shares purchased = \$17.24).

The merits of dollar cost averaging

In addition to potentially lowering the average cost per share, investing a predetermined amount regularly automates your decision-making, and can help take emotion out of your investment decisions.

And if your goal is to buy low and sell high, as it should be, dollar cost averaging brings some discipline to that process. Though it can't help you know when to sell, and your shares could be worth more or less than their original cost when you do sell, this strategy can help you pursue the "buy low" portion of the equation.

Also, many people don't have a lump sum to invest all at once; any investments come out of their income stream--for example, as contributions to their workplace retirement savings account. In such cases, dollar cost averaging may not only be an easy strategy; it may be the most realistic option.

The case for investing a lump sum

Maybe you're considering rolling over an IRA or have just received a pension payout. Perhaps you've



inherited a large amount of money, or the mail-order sweepstakes' prize patrol has finally shown up at your door. You might be thinking about the best way to shift your asset allocation or how to invest the proceeds of a certificate of deposit. Or maybe you've been parking some money in cash alternatives and now want to invest it.

In cases like these, you may want to at least investigate the merits of lump-sum investing. Several academic studies have compared dollar cost averaging to lump-sum investing and concluded that, because markets have risen over the long term in the past, investing in the market today tends to be better than waiting until tomorrow, since you have a longer opportunity to benefit from any increase in prices over time.

For example, a 2009 study by the Association of Investment Companies found that an investor who put a lump sum into the average British investment company at the end of April 2008 (talk about bad timing!) would have been down 30% one year later. Someone who invested the same total amount divided over 12 months would have been down only 7%. However, when the study examined the previous 5 years rather than a single year, the lump-sum investment made in April 2004 would have been up 26% by April 2009, compared to the periodic investment strategy's loss of 10% over the same time.

Several U.S. studies over several decades (Richard Williams and Peter Bacon, "Lump Sum Beats Dollar Cost Averaging," *Journal of Financial Planning*, April 1993; G.M. Constantinides, "A Note on the Suboptimality of Dollar-Cost Averaging," *Journal of Financial and Quantitative Analysis*, June 1979; John Knight and Lewis Mandell, "Nobody Gains From Dollar Cost Averaging," *Financial Services Review*, 1992) reviewed overall stock market performance and reached a similar conclusion: the longer your time frame, the greater the odds that a lump-sum investment will outperform dollar cost averaging.

Considerations about dollar cost averaging

- Think about whether you'll be able to continue your investing program during a down market. The return and principal value of stocks fluctuate with changes in market conditions. If you stop when prices are low, you'll lose much of the benefit of dollar cost averaging. Consider both your financial and emotional ability to continue making

purchases through periods of low and high price levels. Plan ahead for how you'll manage the temptation to stop investing when the chips are down.

- The cost benefits of dollar cost averaging tend to diminish a bit over very long periods of time, because time alone also can help average out the market's ups and downs.
- Don't forget to consider the cost of transaction fees, which can mount up over time with periodic investing.

Considerations about investing a lump sum

- The lump-sum studies reflect the long-term historical direction of the stock market since record-keeping began in 1925. That doesn't mean the markets will behave in the future as they have in the past, or that there won't be extended periods in which stock prices don't rise. Even if they do move up, they may not do so immediately and forever once you invest.
- Even if you don't have a large lump sum to invest now, you may be able to save smaller amounts and invest the total in a lump sum later. However, many people simply aren't disciplined enough to keep their hands off that money. Unless the money is invested automatically, you may be more tempted to spend your savings rather than investing them, or skip a month--or two or three.
- Even seasoned investors have difficulty timing the market, so ignoring fluctuations and continuing to invest regularly may still be an improvement over postponing a decision indefinitely while you wait for the "right time" to invest.
- Don't forget that a lump sum invested in a single security inherently involves more risk than a lump sum put into a more diversified portfolio, regardless of your time frame.

In the end, deciding between lump-sum investing and dollar cost averaging illustrates the classic risk-reward tradeoff that all investments entail. Even if you're convinced a lump-sum investment might produce a higher net return over time, are you comfortable with the uncertainty and level of risk involved? Or are you increasing the odds that you won't be able to handle short-term losses--especially if they occur shortly after you invest your lump sum--and sell at the wrong time?

Pursuant to IRS Circular 230, We are providing you with the following notification: The information contained in this document is not intended to (and cannot) be used by anyone to avoid IRS penalties. This document supports the promotion and marketing of MetLife products and services. You should seek advice based on your particular circumstances from an independent tax advisor. MetLife, its agents, and representatives may not give legal or tax advice. Any discussion of taxes herein or related to this document is for general information purposes only and does not purport to be complete or cover every situation. Tax law is subject to interpretation and legislative change. Tax results and the appropriateness of any product for any specific taxpayer may vary depending on the facts and circumstances. You should consult with and rely on your own independent legal and tax advisers regarding your particular set of facts and circumstances. This document is provided to you for informational purposes only, and is not intended to represent any specific product or service offered. Unless noted, insurance policies and annuity contracts contain exclusions, limitations, reductions of benefits, surrender charges and terms for keeping them in force. Not all strategies or concepts can be used with all MetLife products. You may need to check with your representative to determine whether any limitations (administrative or otherwise) may apply. This material reflects the law established under The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 ("Act"). Among other changes, the Act temporarily establishes minimum exemption amounts of \$5,000,000 per person for federal gift, estate and generation skipping transfer tax (together referred to as "transfer tax") purposes, establishes a maximum transfer tax rate of 35% and provides for portability of the estate tax exemption between spouses. These changes, however, are only in effect through December 31, 2012. Unless Congress enacts new legislation, on January 1, 2013 the transfer tax laws will revert to the laws (e.g. exemption amounts of \$1,000,000 and generally 55% maximum tax rates) in effect in 2001. At this time it is not clear what steps, if any, Congress will take to revise the transfer tax laws for years beyond 2012. Changes in transfer tax exemption amounts and transfer tax rates may impact the appropriateness of any transfer tax planning strategy or product sale. *Securities products, including mutual funds and variable annuities are sold by prospectus, which is available from your registered representative. For information about a securities product please obtain a prospectus and read it carefully before you invest to consider investment objectives, risks, charges, and expenses.* This material is prepared by Forefield, Inc. MetLife and its affiliates are separate entities from Forefield, and do not guarantee the accuracy of the information presented. Any calculations contained in this document are for hypothetical purposes only and may be calculated off information you provide. Performance figures are for illustrative purposes only, do not represent actual past or projected future investment results and do not guarantee future results. Unless noted, costs are not included, and may reduce projected figures. Results should be used as educational and may not contain all variables specific to your situation. Please see your representative for questions specific to your own situation. Metropolitan Life Insurance Company (MLIC), New York, NY 10166. Securities products and investment advisory services are offered through registered representatives and investment advisor representatives, respectively, of MetLife Securities Inc. (MSI), Member FINRA/SIPC and a registered investment advisor, 1095 Avenue of the Americas, New York, NY 10036. MetLife Auto & Home is a brand of Metropolitan Property and Casualty Insurance Company (MPCIC) and its affiliates, Warwick, RI. Not available in all states. Some health insurance products offered by unaffiliated insurers through the Enterprise General Insurance Agency, Inc. (EGA), Somerset NJ 08873. MLIC, MSI, MPCIC and the EGA are MetLife companies. L0211160197[exp0112][All States][DC]

It's important to know yourself and your limitations as an investor. Understanding the pros and cons of each approach can help you make the decision that best suits your personality and circumstances.

Pursuant to IRS Circular 230, We are providing you with the following notification: The information contained in this document is not intended to (and cannot) be used by anyone to avoid IRS penalties. This document supports the promotion and marketing of MetLife products and services. You should seek advice based on your particular circumstances from an independent tax advisor. MetLife, its agents, and representatives may not give legal or tax advice. Any discussion of taxes herein or related to this document is for general information purposes only and does not purport to be complete or cover every situation. Tax law is subject to interpretation and legislative change. Tax results and the appropriateness of any product for any specific taxpayer may vary depending on the facts and circumstances. You should consult with and rely on your own independent legal and tax advisers regarding your particular set of facts and circumstances. This document is provided to you for informational purposes only, and is not intended to represent any specific product or service offered. Unless noted, insurance policies and annuity contracts contain exclusions, limitations, reductions of benefits, surrender charges and terms for keeping them in force. Not all strategies or concepts can be used with all MetLife products. You may need to check with your representative to determine whether any limitations (administrative or otherwise) may apply. This material reflects the law established under The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 ("Act"). Among other changes, the Act temporarily establishes minimum exemption amounts of \$5,000,000 per person for federal gift, estate and generation skipping transfer tax (together referred to as "transfer tax") purposes, establishes a maximum transfer tax rate of 35% and provides for portability of the estate tax exemption between spouses. These changes, however, are only in effect through December 31, 2012. Unless Congress enacts new legislation, on January 1, 2013 the transfer tax laws will revert to the laws (e.g. exemption amounts of \$1,000,000 and generally 55% maximum tax rates) in effect in 2001. At this time it is not clear what steps, if any, Congress will take to revise the transfer tax laws for years beyond 2012. Changes in transfer tax exemption amounts and transfer tax rates may impact the appropriateness of any transfer tax planning strategy or product sale. *Securities products, including mutual funds and variable annuities are sold by prospectus, which is available from your registered representative. For information about a securities product please obtain a prospectus and read it carefully before you invest to consider investment objectives, risks, charges, and expenses.* This material is prepared by Forefield, Inc. MetLife and its affiliates are separate entities from Forefield, and do not guarantee the accuracy of the information presented. Any calculations contained in this document are for hypothetical purposes only and may be calculated off information you provide. Performance figures are for illustrative purposes only, do not represent actual past or projected future investment results and do not guarantee future results. Unless noted, costs are not included, and may reduce projected figures. Results should be used as educational and may not contain all variables specific to your situation. Please see your representative for questions specific to your own situation. Metropolitan Life Insurance Company (MLIC), New York, NY 10166. Securities products and investment advisory services are offered through registered representatives and investment advisor representatives, respectively, of MetLife Securities Inc. (MSI), Member FINRA/SIPC and a registered investment advisor, 1095 Avenue of the Americas, New York, NY 10036. MetLife Auto & Home is a brand of Metropolitan Property and Casualty Insurance Company (MPCIC) and its affiliates, Warwick, RI. Not available in all states. Some health insurance products offered by unaffiliated insurers through the Enterprise General Insurance Agency, Inc. (EGA), Somerset NJ 08873. MLIC, MSI, MPCIC and the EGA are MetLife companies. L0211160197[exp0112][All States][DC]