Manulife Investment Management

Dollar cost averaging: An easier way to navigate volatile markets

Can you predict the increase (or decrease) in the closing value of the emerging-market equity index three years from now? Without a crystal ball, it is impossible to correctly estimate future market trends, not to mention the ability to identify the best time to invest. If investors wish to reduce volatility and benefit from long-term growth when the markets move up and down, the automatically executed strategy of dollar cost averaging may be a feasible choice.

1.

What is dollar cost averaging?

It is the practice of regularly investing a fixed dollar amount in a specific investment – regardless of fluctuations in the market price. As a result, an individual buys more units when prices are low and fewer units when prices are high.

2.

Why use this strategy?

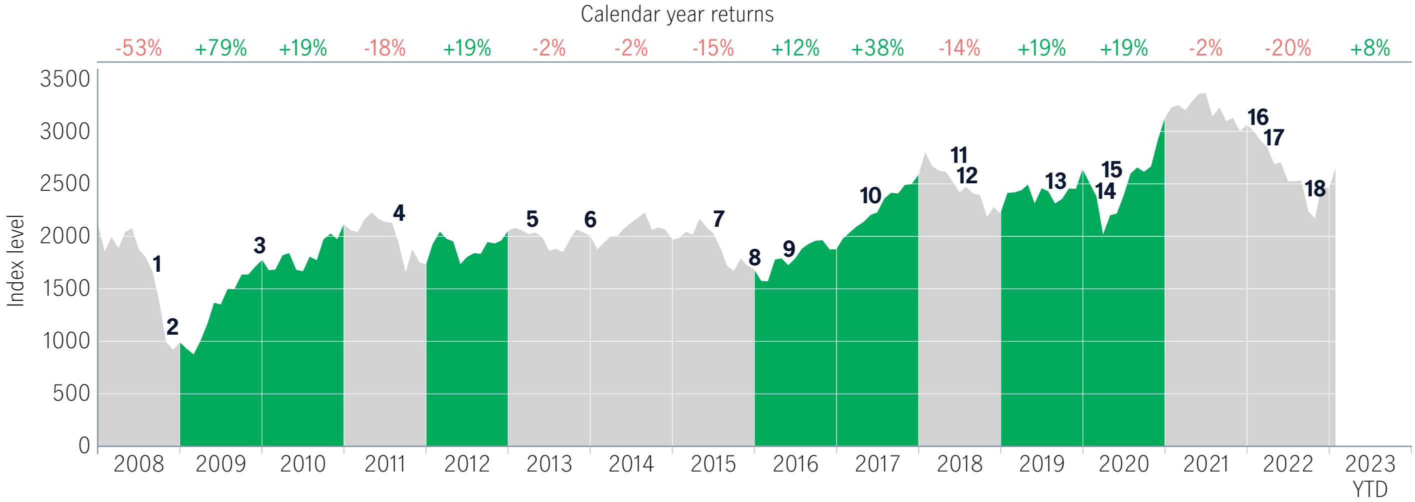
Financial markets fluctuate, so it is often difficult to choose the best time to invest.

No single investment strategy guarantees easy profits or significant returns. So, it's important to find a viable long-term approach that matches your risk appetite, financial goals, and budget. Here are the merits of dollar cost averaging:

- **Investors regularly invest fixed sums of money based on pre-set orders,** regardless of market conditions. **Investments made under this strategy are usually smaller than lump-sum amounts. Therefore, it is suitable for investors with a lower risk appetite, less time to spare on closely following the relevant asset prices, or those with limited funds.**
- When there are unanticipated market movements (notable rises or falls), inexperienced investors could panic and make irrational decisions, such as buying high due to a fear of missing out on market rallies or selling low to avoid further losses because of falling markets. However, dollar cost averaging **helps alleviate the potential negative effects of irrational "active trading" on investment returns.**
- When markets are volatile, it is possible to accumulate more units at lower prices, probably resulting in a lower average investment cost than with a lump-sum approach during the entire investment period, which helps diversify risk. **If underlying asset prices stabilise or even trend upwards during times of uncertainty, investors may earn positive returns at the end of the period and may even outperform lump-sum investing** (see the following example).

However, if financial markets move higher for a prolonged period, this strategy may sacrifice the potential gains from an initial lump-sum investment.

MSCI Emerging Markets Gross Total Return Index (2008 – January 2023)



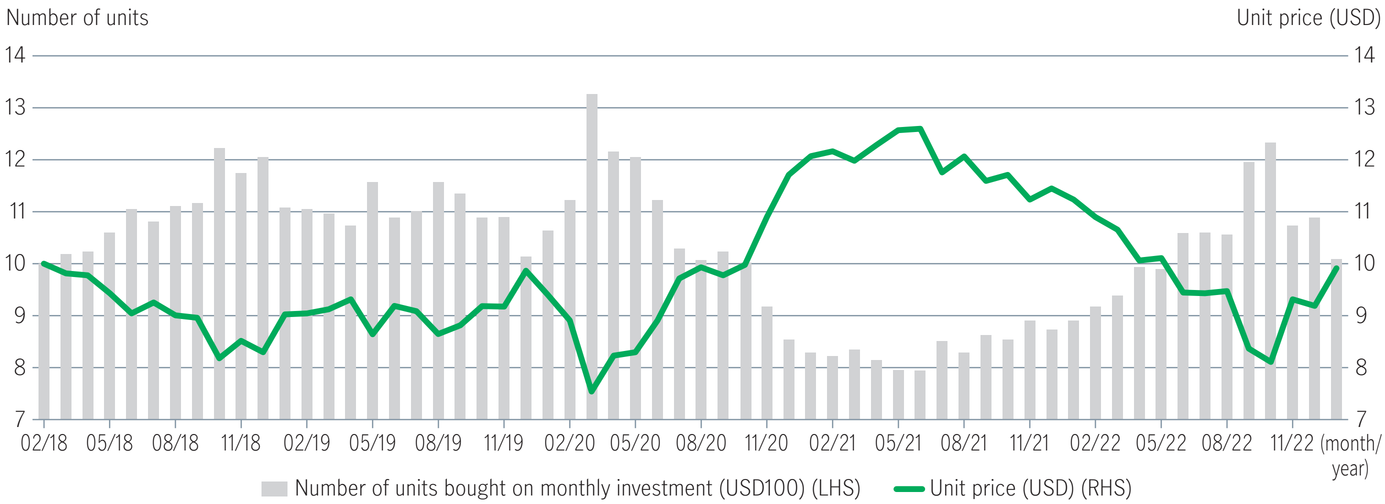
For illustrative purposes only.

1. September 2008: Lehman Brothers bankruptcy
2. November 2008: The Fed launched its first round of quantitative easing
3. December 2009: European sovereign debt crisis
4. August 2011: Standard & Poor's downgraded the US' sovereign credit rating to "AA+"
5. April 2013: Bank of Japan introduced quantitative and qualitative monetary easing
6. December 2013: The Fed announced the tapering of its quantitative easing
7. August 2015: China devalued the renminbi by about 2% against the US dollar
8. December 2015: The Fed raised rates for the first time since 2006
9. June 2016: Brexit
10. June 2017: Synchronised global growth
11. June 2018: Selloff pressure in emerging markets
12. July 2018: US and China each placed tariffs on selected bilateral imports
13. July 2019: The US Federal Reserve cut interest rate for the first time in over a decade
14. March 2020: World Health Organization declares COVID-19 a pandemic; A global equity market sell off
15. April 2020: US crude oil prices turned negative
16. February 2022: Russia launched military actions in Ukraine
17. March 2022: The US Federal Reserve started to raise interest rates (by 450 basis points as of its Jan/Feb FOMC meeting in 2023)
18. November 2022: China eased quarantine rules and flight bans

Source: MSCI and Bloomberg, as of 2 February 2023. Total returns in US dollars.

Hypothetical example: Lump sum investment versus monthly investment (dollar cost averaging)[1]

	Lump Sum Investment	Dollar Cost Averaging
Investment	MSCI Emerging Markets Gross Total Return Index	
Investment period	28 February 2018 – 31 January 2023 (60 months)	
Total investment amount	USD 6,000	USD 6,000 (USD 100 X 60 months)
Unit price on 28 February 2018	USD 10	
Unit price on 31 January 2023	USD 9.91	
Total number of units bought	600	**617.67 (more units)**
Average cost per unit	USD 10	**USD 9.71 (lower cost)**
Total investment value as of 31 January 2023	USD 5,948.76	USD 6,123.99
Return for the whole investment period	- USD 51.24 (-0.85%)	**USD 123.99 (+2.07%) (higher investment return)**



3.

Investment acumen is the key to lump-sum investing success

The lump-sum approach could be more familiar to investors, many of whom already have relevant experience with equities, bonds, and funds. While both strategies have their own unique characteristics, returns may vary significantly under different market conditions. Market consensus leans towards a belief that if asset prices keep rising, then lump-sum investing can provide better returns for calm and seasoned investors, but we should also bear in mind that:

- The key to success with lump-sum investing is capturing the best time to enter or exit markets. However, in real cases, buying low and selling high is not easy.
- Experienced investors can often manage their emotions and deal with market movements calmly and flexibly.
- Inexperienced investors tend to predict the market, overreact to temporary market shifts, and finally quit with a big loss.

1 Source: Bloomberg and MSCI, as of 31 January 2023. Total returns in US dollars. Index value is rebased as US$10 (initial unit price) on 28 February 2018. Monthly investment is made on every month end at rebased unit price. As of 28 February 2023, the geographical allocations of MSCI Emerging markets index are as follows: China (32.11%), Taiwan (15.26%), India (13.23%), South Korea (11.74%), Brazil (5.05%) and others (22.61%). The example mentioned is for illustrative purpose only. The information neither indicates any actual portfolio holdings nor constitutes any investment recommendation or advice. Different investments have different volatile patterns. Past performance is not an indicative of future performance.

4.

A systematic investment strategy, by nature, requires active implementation

Time in the market will almost always be better than timing the market. Investment is a long-term venture that can potentially reward the patient with positive returns, while impulsive investors may experience losses.

Dollar cost averaging provides investors with a disciplined investment strategy that is easy to apply. Once the instruction is set, this approach automatically allocates regular fixed amounts regardless of market conditions and psychological factors, which helps avoid erroneous decisions. If investors believe this strategy could help them achieve their goals, they should actively identify assets with long-term growth potential and initiate a monthly investment plan.

2837428