Manulife
Investment Management

# *Dollar cost averaging:* An easier way to withstand 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. This technique reduces the effects of short-term market fluctuations on investments by averaging out the costs of units over time.

# 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 (30 June 2021 to 30 June 2025)

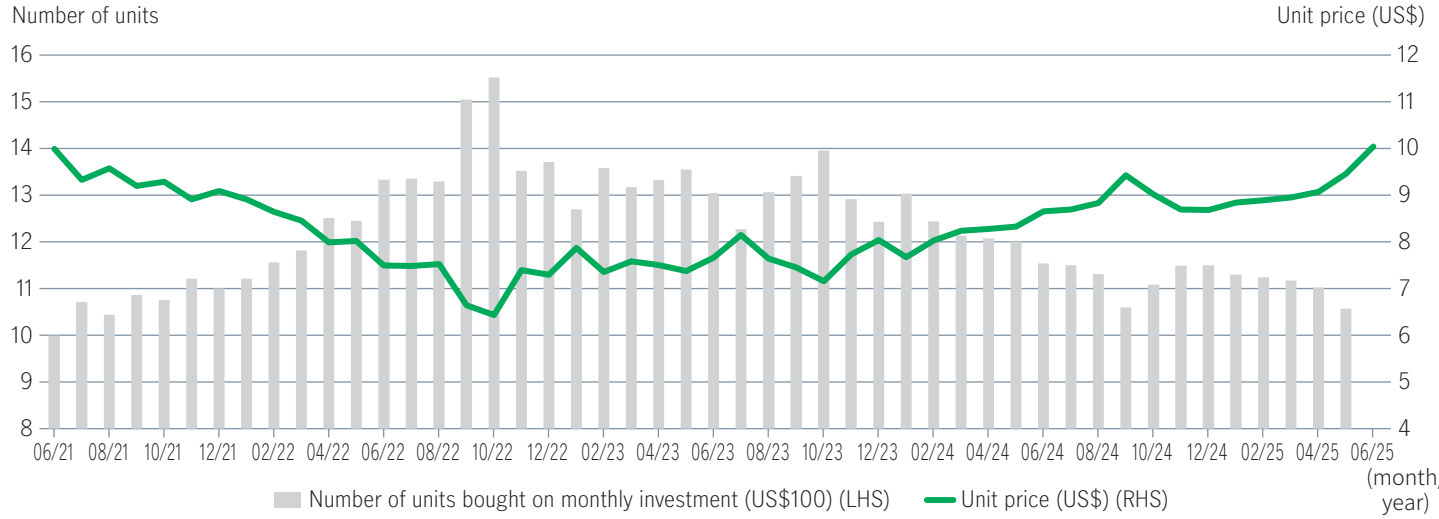
1. September 2021: A leading mainland Chinese property developer faces the risk of a potential default.
2. February 2022: Russia launches military action in Ukraine.
3. March 2022: The US Federal Reserve initiates its interest rate hiking cycle.
4. June 2022: US inflation reaches its highest level in more than 40 years.
5. December 2022: Mainland China further optimises its COVID-19 response by releasing 10 new measures.
6. February to March 2023: Mainland China fully reopens its borders for the first time since the onset of the COVID-19 pandemic.
7. March 2023: The US regional banking crisis emerges.
8. July 2023: The Federal Reserve ends its 16-month interest rate hiking cycle.
9. October 2023: The Israel-Gaza conflict
10. March 2024: The Bank of Japan exits negative interest rates.
11. June 2024: The European Central Bank starts its interest rate cutting cycle. Narendra Modi wins a third term as India's Prime Minister.
12. September 2024: Mainland China releases a stimulus package to support the economy. The US Federal Reserve initiates its interest rate cutting cycle.
13. November 2024: Donald Trump wins the US President Election.
14. March 2025: Boosting domestic demand becomes a priority task at the third session of the 14th National People's Congress of China.
15. April 2025: The US announces the imposition of "reciprocal tariffs" on imported goods.
16. May 2025: Mainland China and the US conclude trade negotiations, mutually agreeing to significantly reduce import tariffs and temporarily suspend the implementation of some reciprocal/counter tariffs.

    Following more than three years of conflict, Russia and Ukraine engage in direct peace talks for the first time.
17. June 2025: Israel and Iran reach a ceasefire agreement.

Source: Compiled from media reports, Bloomberg and MSCI, from 30 June 2021 to 30 June 2025. * represents the total return from 30 June 2021 to 31 December 2021. ** represents the total return from 31 December 2024 to 30 June 2025. Total returns in US dollars. Past performance is not an indicative of future performance. It is not possible to invest directly in an index. For illustrative purposes only.

## 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** | 30 June 2021 – 30 June 2025 (48 months) | |
| **Total investment amount** | US$4,800 | US$4,800 (US$100 X 48 months) |
| **Unit price on 30 June 2021** | US$10 | |
| **Unit price on 30 June 2025** | US$10.04 | |
| **Total number of units bought** | 480 | **585.89 (more units)** |
| **Average cost per unit** | US$10 | **US$8.19 (lower cost)** |
| **Total investment value as of 30 June 2025** | US$4,821.32 | US$5,884.88 |
| **Return for the whole investment period** | US$21.32 (+0.44%) | **US$1,084.88 (+22.60%) (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 30 June, 2025. Total returns in US dollars. Index value is rebased as US$10 (initial unit price) on 30 June 2021 rebased unit price. As of 30 June 2025, the geographical allocations of MSCI Emerging markets index are as follows: China (28.42%), Taiwan (18.92%), India (18.12%), South Korea (10.73%), Brazil (4.43%) and others (19.38%). 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. It is not possible to invest directly in an index. For illustrative purposes only.

# 4.

## A systematic investment strategy, by nature, requires active implementation

Time in the market should 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.

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