Investment Insight: Slow and Steady Wins the Race

Time is a type of capital. It can work in your favor, or it can work against you. In order to leverage time in your financial favor, you must accumulate some assets and keep them in the marketplace.

Along the way, your capital flags new opportunities and encourages further investment in free enterprise; this potential for profit yields dividends to you, the intrepid investor. When you get to the heart of the matter, it is the prospect of gain that powers the entire wheel of capitalism. How to get started?

One way to dig in is called dollar cost averaging. It is an automatic investment technique designed to reduce market risk through systematically buying securities at predetermined intervals and set amounts. It involves investing a certain amount of money regularly, such as monthly or quarterly, regardless of market and economic conditions. When you dollar-cost average, you buy more shares when prices are low and fewer shares when prices are high, but your average cost per share may fall as time goes on.

How does it work? It is a marketplace example of the turtle vs. the hare chronicle from Aesop’s Fables. As the story goes, a show of drama is less effective than an incremental push day by day toward the finish line. The moral of the story is that slow and steady wins the race. There is no need to invest assets in a large lump sum; buy smaller amounts over a longer period of time. What is the advantage of that? It spreads the original cost over several years and therefore insulates against changes in market price. To begin:

- Decide how much money you can invest each month. Be wise and pick an amount that you can stick with over time.
- Select an investment that you want to hold for the long term, preferably 5 to 10 years or longer.
- At regular intervals (weekly, monthly or quarterly is best), invest that money into the security you’ve chosen.

One advantage of this approach is the fact that it frees you from needing to have a large amount of money to invest on day one of your investing career. The concept works well for young and ambitious investors. So celebrate your salad days and invest what you can at set intervals. There is no need to feel self conscious about your “modest efforts.” In point of fact you are stretching your investment dollar and employing a “best practice” in the field. Dollar cost averaging is not dramatic, but it works.
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About The Amount

Not everything in life goes in a straight line. Consumption patterns, for example, fluctuate throughout life. Given this fact, how much should you invest regularly? It's a personal decision. It all depends on how you wish to stride across life's stage, a posture that will evolve as your life unspools. Toward that end, ask yourself questions like:

- Do I want to retire at the beach or in the mountains? Or remain close to long-term family and friend networks?
- Do I wish to build enough wealth to bequeath some to the next generation? Or am I happy to spend all assets myself?
- Do I want to purchase a vacation home, and if so, will I carry a mortgage on it?
- Do I plan to travel extensively?
- Can I cover these costs with projected income from retirement plan assets?
- Do I know how much I can expect to receive from Social Security?
- Am I planning to take Social Security benefits as soon as I become eligible?
- Or would I prefer to delay receiving those benefits for a few years so I can be entitled to a larger monthly check?

Each decision in such a long chain of choices expresses much more than a financial value. It covers the dicey ground of status-seeking, the fulfillment of childhood expectations, deferred gratification, how you wish to be remembered, family unity and many other potential points of conflict. I can help you address these and other issues. I can also help you in setting up an automatic investment plan, selecting suitable investments, and providing ongoing guidance and support to help maximize your plan's potential. Call me today to get started.