

This Issue of Financial Affairs has been created to provide a brief overview of an important investment topic. For more detailed information or for a free copy of a Financial Affairs Issue that may be of greater interest to you, please contact your Financial Advisor.

Issue

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THE POWER OF COMPOUNDING
AND DOLLAR COST AVERAGING

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Working Together For Your Future

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Building Greater Strength For Your Investments



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Financial success is rarely rarely spontaneous.

Achieving personal goals demands regular, disciplined investing. Abandoning your hunches and sticking to a plan can also put the power of compounding and dollar cost averaging behind you. Working together, these parallel, and powerful, financial forces can add dramatically to your financial strength.

HOW DOLLAR COST AVERAGING WORKS

Instead of investing all your money at one time, then agonizing over the short-term ups and downs of capital markets, break your money into smaller chunks and invest a set amount of money on a regular basis – monthly or quarterly – regardless of what the market is doing.

The idea behind dollar cost averaging is wonderfully simple. When prices rise, your fixed dollar investment naturally buys fewer units of a given security. However, when prices fall, that same fixed dollar amount buys more. It doesn't necessarily guarantee a profit or protect against a loss, but over time, it has been shown to result in a lower average purchase price per unit.

A PROFITABLE EXAMPLE:

You decide to invest \$100 per month in a mutual fund. In January, the fund is offered at \$20 per unit, so your \$100 buys 5 units. By February, prices have declined to \$10 per unit. At this bargain price, your \$100 monthly investment

goes a lot further, netting 10 units of the fund. However, by April, the fund stages a comeback and climbs to \$30 per unit. A modest 3.33 units is all your \$100 will buy.

Now, evaluate your investment. Overall, you've purchased 25 units at an average price of \$16, while the average market price was \$18.75 per unit. In this case, dollar cost averaging has resulted in a much lower average purchase price per unit.

THE MUSCLE OF COMPOUNDING

Compounding describes what happens when you systematically reinvest gains produced by an investment.

With stocks, you can use dividends to buy more shares. With mutual funds, you reinvest income, dividend or capital gains distributions into additional units. With fixed-income securities, you employ interest payments to buy more certificates. As you keep ploughing your profits back into your investment, you earn gains on your gains – in effect, expanding the growth rate.

PUTTING TIME TO WORK FOR YOU

Compounding has a “snowball” effect. It starts out modestly, then gathers momentum. Suppose you invest \$100 at 10%. During the first year, your investment grows to \$110. During the second year, that \$10 earns an additional \$1. That \$1 is your compound interest. This “magic” of compounding has been proven to work over time. And applied to larger amounts, the gradual buildup of interest is substantial.

Dollar Cost Averaging

<i>Time Period</i>	<i>Amount Invested</i>	<i>Purchase Price</i>	<i>Units Purchased</i>
January	\$100	\$20	5
February	\$100	\$10	10
March	\$100	\$15	6.66
April	\$100	\$30	3.33
Total	\$400	–	25

Average Market Price ($\$75/4$) \$18.75

Average Purchase Price ($\$400/25$) \$16.00

GETTING RICH SLOWLY

Compounding doesn't work overnight. But, over the long haul, it will help to achieve your financial goals. Stick to simple guidelines and your investments will build consistently.

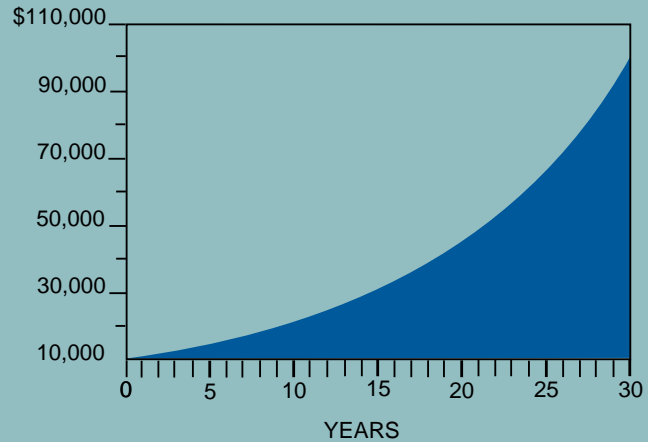
- ◆ Don't ignore risk, but do seek investments with relatively high long-term potential.
- ◆ Stay invested. Some investment programs are designed for people who want current income, or a cash cushion for unexpected needs. But if you're truly setting money aside for future requirements – try not to raid the cookie jar.
- ◆ Start investing as early as you can. Even small amounts, if invested long enough, can grow to substantial levels.

THE RULE OF 72: DOUBLING YOUR MONEY

THE "RULE OF 72" IS A HANDY WAY OF MEASURING THE GROWTH OF YOUR INVESTMENTS.

SIMPLY DIVIDE THE NUMBER 72 BY THE ANNUAL RATE OF RETURN, AND THAT AMOUNT WILL ALWAYS EQUAL THE NUMBER OF YEARS IT TAKES YOUR MONEY TO DOUBLE.

The chart below shows the growth rate of an initial investment of \$10,000 at an 8% rate of return compounded annually.



Total income earned at the end of 30 years is \$96,000. This is calculated as \$106,000 minus the initial investment of \$10,000.

In year one, the additional capital accumulation is minimal. But by the 25th year, the growth rate is much more dramatic. And, after 30 years, your initial \$10,000 investment has increased more than ten-fold to an impressive \$106,000.

FOR MORE INFORMATION

Dollar Cost Averaging and Compounding can work wonders. If you'd like to know more about increasing the ultimate power of your investments, talk to your Financial Advisor.