# Dollar cost averaging

first state super

## Trying to predict the best time to enter investment markets is near impossible. The term dollar cost averaging is simply another way of describing a regular investment plan.

By regularly investing the same amount (say $100 a month) rather than investing a lump sum every now and then, you'll buy less when prices are high and more when prices are low. In this way, you average out the dollar cost of your investment and you eliminate the need to pick the markets.

It's also a good way to take the stress out of investing. Instead of sitting on the sidelines waiting for the right time to jump into the market, or selling up as soon as the market drops, you simply invest a set amount of money on a regular basis.

## Dollar cost averaging and your super

Many super fund members are already benefiting from dollar cost averaging, thanks to the regular superannuation guarantee (SG) contributions their employer is making. However, you can really maximise the effect by making your own personal contributions to your super every fortnight or month.

Each time you make a contribution to your super, you're buying a certain number of units in your chosen investment option, based on the unit price for that particular option. As the unit price moves up and down on any given day, dollar cost averaging helps you buy more units when the unit price is low and fewer units when the unit price is high. So aside from being an effective savings program, over time, dollar cost averaging can also allow you to take advantage of both rising and falling investment markets.

### Tip

To make the most of dollar cost averaging, think about adding some of your own money to your super. You'll get more into the tax-favoured super environment and you probably won't miss the money. But what you will notice is the difference that compound interest (earning interest on your interest) can make to your super balance over time. Don't forget to keep a close eye on your contributions so you don't accidentally exceed the contributions caps.

### *Example**

Consider the example of Kate, a teacher who is earning $40,000 per year. Kate can only afford to contribute smaller amounts to her super throughout the year so she sets up a payroll deduction to have $100 a month automatically paid into her First State Super account.

Over the next few months the market is quite volatile – at first it falls causing the unit price to drop, before recovering to its original value. But these fluctuations worked in Kate's favour because she continued to make her monthly contribution and purchased more when investments were priced lower and less when markets were priced higher.

After 5 months of contributing $100 each month, Kate has 65 units, each worth $10, which is a total of $650. If she had saved up and invested a lump sum of $500 at the end of five months when the unit price was $10 she would only have $500 in her account. This means Kate has contributed more to her super than had she invested a lump sum of $500, as you can see in the table below.

| Month | Contribution amount | Unit price | Number of units purchased |
|---|---|---|---|
| 1 | $100 | $10 | 10.0 |
| 2 | $100 | $8 | 12.5 |
| 3 | $100 | $5 | 20.0 |
| 4 | $100 | $8 | 12.5 |
| 5 | $100 | $10 | 10.0 |
| Total | $500 | – | 65.0 |

Dollar cost averaging is a reliable way to safeguard your super against market volatility. Remaining committed to your dollar cost averaging plan will also reduce the chance that you'll invest a larger amount when the cost of entering the market is higher.

* This example is provided to show how dollar cost averaging works and is not reflective of the unit price or the performance of any investment option.

## How to get started

There are a few different ways you can add money to your super account. You (or your spouse for you) can contribute by BPAY®, electronic funds transfer, direct debit or by cheque.

You can also arrange to make contributions to your super account by payroll deduction (either under a salary sacrifice arrangement or on an after-tax basis). You should talk to your payroll office to arrange this.

Unless you contribute via BPAY, you will need to complete and submit a form, which you can download from **firststatesuper.com.au/forms**.

Or you can set up a direct debit which automatically tops up your super account each month by logging into your online account.

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## Dollar cost averaging can help **safeguard your super** against volatility

## Here to help!

Super can be quite complicated and sometimes you just want to know that you're making the right decisions. Because the right decisions about your super can make a real difference to your financial future.

So if you've got any questions, or you just want the comfort of knowing you're on the right track, getting some advice can help.

StatePlus is our financial planning business and is wholly owned by us. The team at StatePlus can answer simple questions about your super over the phone, or if your situation is more complex, prepare a full financial plan for you. It's all up to you, no obligation. Book online at firststatesuper.com.au/advice or call **1800 620 305** (Monday to Friday 8.15 am to 8.15 pm AEST/AEDT) to arrange an appointment.

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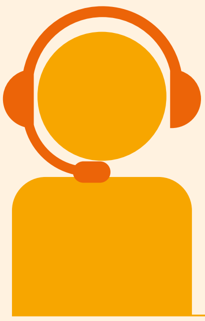

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