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How can my RRSP benefit from DOLLAR COST AVERAGING (DCA)?

Perhaps you've decided that you must accelerate your combined RRSP savings if you are to possibly realize your retirement dreams. Here is a strategy that works all year round - well ahead of, and eliminating, the annual RRSP deadline frenzy.

A systematic investment strategy called dollar-cost-averaging (DCA). By prearranging a schedule of equal monthly investment payments to a mutual fund, you can realize four big advantages.

1) Get your RRSP money working earlier. Every year, a good deal of money begins working long before the assumed RRSP deadline. This gets part of your fund money invested earlier every year in small amounts you can afford. DCA allows for a convenient pre-payment of your annual RRSP contribution, versus in the last anxious moments of February.

2) You can profit from more gains after experiencing market down-turns. You needn't worry about market timing decisions when you buy your mutual fund units. Investing a fixed dollar amount every month, adds a benefit over the years. You will purchase more mutual fund units when the price is lower, fewer when the price is higher. While consistently purchasing throughout market declines, when units cost less, you buy more units with the same dollar. Thus, fears of the market dropping in value are replaced with the knowledge that you will eventually own far more fund units over time, as long as you continue to invest in the same scheduled manner when the market is down. The purchases are scheduled, not "timed" - there is a vast difference. We rarely know when the market will peak, or when it will stop declining. This means that one may time a lump sum purchase just before the market drops, incurring a loss on that lump sum investment; or when one waits to purchase at a lower unit price, he or she may miss buying lower, if the market begins climbing back quickly. Conversely, when you schedule consistent buying, using DCA, you won't miss buying the lower priced units.

What is the upside of DCA in a low market? Fund units purchased during market down-turns can be very profitable once the market retraces any loss. Subsequent upward moving markets will greatly increase the value of every unit held (especially with the addition of those lower priced bargain units bought when the market value declined). More units bought at lower prices offer more potential for future profit.

3) One more benefit - you'll be less influenced by market fear factors. Dollar-cost-averaging fund purchasers are isolated from negative market psychology. Contrary to the crowd, they now automatically buy through periods of opportunity when the price is low, the time when most people may do the opposite - sell out of fear. Dollar-cost-averaging encourages a determined, intelligent, and disciplined investment behaviour.