

Regular savings plan - the key to long-term wealth creation

To be a successful investor in the share market, investors do not necessarily need a large amount of money. What does help though is a commitment to a regular savings plan - a convenient and flexible approach to investing.

Dollar cost averaging and regular savings plans are a convenient and flexible way for investors to gain additional exposure to investments over time. The objective of these strategies is to reduce the risk of investing a large amount of money in a single investment at the wrong time.

Dollar cost averaging

Dollar cost averaging is an approach where an amount of money is invested, on a regular basis, usually monthly, into an existing investment. This approach takes advantage of the only certainty of the share market - which prices will continue to rise and fall.

By investing a set amount regularly, regardless of the amount, investors can buy more shares when prices are low and fewer shares when prices are high. Therefore, the average price paid per share can be lower than the average market price, as displayed in Figure 1 below.

Figure 1: Dollar cost averaging.
The average price you pay per share can be lower.

Regular Investment	Market Price	No. of Shares Received*
\$200	\$10	20
\$200	\$9	22
\$200	\$7	29
\$200	\$6	33
\$200	\$6	33
\$200	\$6	33
\$200	\$6	33
\$200	\$7	29
\$200	\$9	22
\$200	\$10	20

Total cost of shares = \$2,000
Value of shares = \$2,740

Average market price = \$7.60
Average price paid = \$7.27

Regular savings plan

A regular savings plan is a disciplined method of investing and an excellent way to benefit from dollar cost averaging. With a regular savings plan, a set amount of money is automatically debited from your bank account on a regular basis.

In Figure 2 on the next page, we have charted the results of investing 2,000 each year in a well known Industrial Share Fund since 1980. To simplify the table, we have assumed an annual investment rather than a monthly or quarterly saving.

The table is divided into investments on the highest and lowest days of each year to show the returns under different buying scenarios. The 'Highest Day' is defined as the day when the unit price in the Industrial Share Fund reached its annual peak - this was the most expensive time to buy into the Fund. The 'Lowest Day' is defined as the day when the unit price reached its lowest point for the year and was the cheapest time to buy.

Even if an investor had made all the investments into the Industrial Share Fund at a time when the Fund's unit price peaked each year, they would have achieved a very attractive average annual return of 15.2%. The potential for higher returns is strengthened when compared to a regular savings interest rate of around 5.5% pa.

To establish either a dollar cost averaging plan or a regular savings plan, you should first Future Wealth Planners. Any contribution to either Plan must be made in accordance with a registered PDS.

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