Clever.

Are you a ‘prisoner of indecision’?

It’s ‘time to stop the timing’ and reap the benefits of pound cost averaging.

What will you learn?

- It’s good to be rational, not normal
- A simple strategy can achieve a better return
- Your risk profile stays the same
- Escape the prison of indecision
- Achieve investment ‘peace of mind’

While investment markets fluctuate wildly, almost on a daily basis, and doom and gloom pervades the news, it’s understandable why new investors, as well as existing ones about to top up their portfolios, feel nervous about investing.

You may be thinking “should I wait to invest until things look more settled, or even wait until I see for myself that things are recovering”?

This instinct may be normal, but it’s not rational from an investment point of view. It’s one thing to be told this fact - seemingly from the safe confines of an investment school - and another thing to accept and proceed with that advice in ‘the real world’.

Good investing can be stress-free

There is a brilliantly simple, tried and tested, solution that can help rescue you from the prison of indecision which is fraught with recriminations such as “did I get my timing right?” and “did I miss the boat by investing too late, or go in too early only to experience the pain of further losses?”

Pound cost averaging is an easy-to-implement strategy based on very simple mathematics and a process that’s been used by professional investors for decades.

How does pound cost averaging work?

With a unitised investment (such as your Investment ISA account, pension, investment bond etc) your money buys units in a fund. If you invest regularly, say monthly or quarterly, you buy a number of units with each contribution.

The number of units that you buy will depend upon their underlying value each month. Any fluctuation in their value will mean that some months you buy more, or less, units than in others.

So in an unsettled market it can be an advantage to invest monthly as opposed to a one-off single lump sum.

Here comes the evidence that it can work

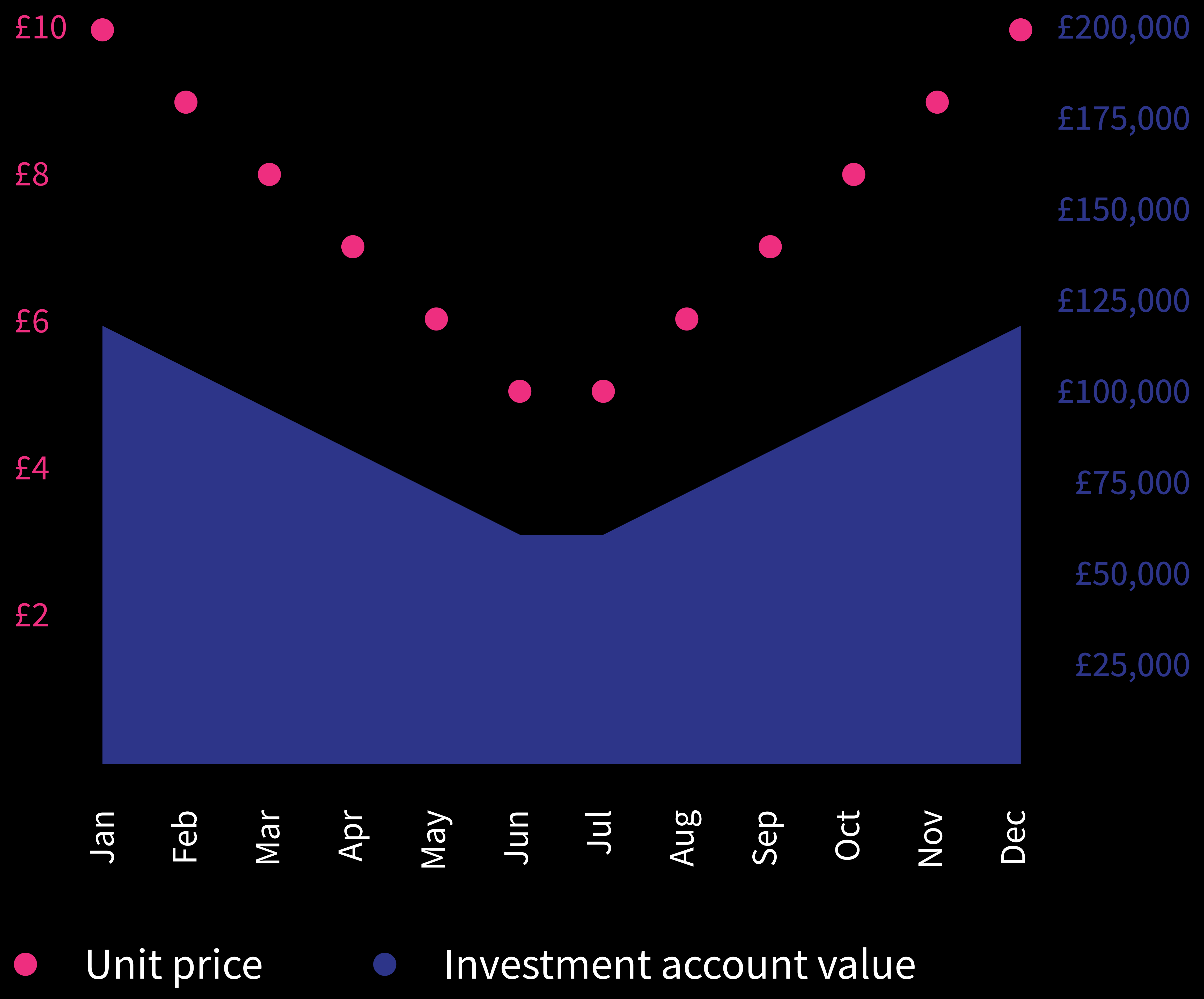
Example: Investing a lump sum

You invest £120,000 in January at a unit price of £10 which means you buy 12,000 units in total. The number of units that you hold remains the same throughout the period.

In June and July, whilst the number of units is still 12,000 the price per unit has now fallen to £5. Therefore, the value of your investment account falls to £60,000.

However, by December the unit price has returned to £10 (like it was in January) which means that your investment account has recovered to your starting amount of £120,000. That's quite a rollercoaster for no additional returns.

Single lump sum of £120,000
No of units: 12,000 (remains consistent throughout the year)



Example: Investing monthly

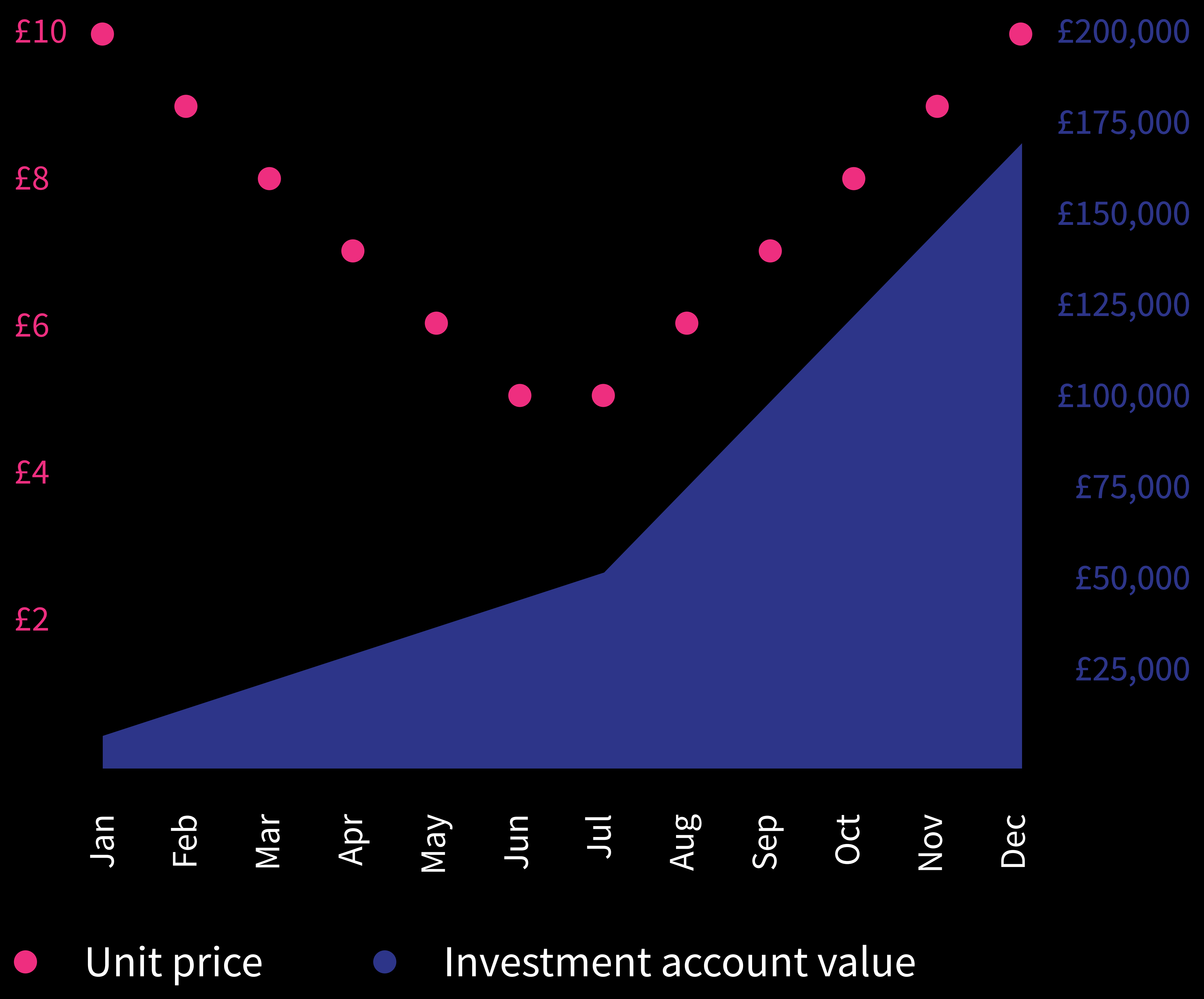
Instead of investing your £120,000 as a one-off lump sum, you spread your investment evenly at £10,000 per month throughout the year (£10,000 x 12 months = £120,000).

As in the previous example, the unit price of the fund falls in value to a low of £5 per unit in June and July but recovers to its original value of £10 by the end of the year. However, because the unit price is now only £5 (half the price of January), your £10,000 buys 2,000 units.

By December, you would have bought 4,914 more units than in the previous example. Furthermore, now that the price per unit has recovered to its original price of £10 per unit, your total investment is worth £169,140. That's an increase of £49,140 - a return of 40%!

Pound cost averaging may sound complex, but the maths and the end result could be both beautifully simple and rewarding.

Regular equal monthly investments of £10,000



WARNING: Please note that if the unit price trend should invert in the example above, then this would reduce the investment account value. For this to occur you would have to believe that markets would double in value within the 12-month investment period and the unit price would finish where it started.

Here come the take-aways

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- A simple strategy can achieve a better return
- Your risk profile stays the same
- Escape the prison of indecision
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