

Message From the Dean



DOLLAR COST AVERAGING

The other day, a student approached me with a concerned look on his face.

"Dude, the market's out of control and it's cramping my style. Does this mean that my retirement fundage is washed up?"

I thought that this was a very interesting statement. After all, not too many of us are aware of the fact that a downturn in the stock market can be a good thing.

Check out these charts.

Allow me to further explain this theory. Let's say that a particular student owns mutual funds inside of his retirement plan. Each mutual fund is priced at the end of the day based on the performance of the holdings inside of that fund. Bear with me — no one said that this would be easy.

This student makes a contribution to his retirement plan every two weeks. Every contribution he makes purchases shares of the mutual funds that he has selected. His contribution is in the amount of \$10 and the mutual fund that he owns is currently priced at \$10 per share, so he now owns one share. If that was to be all he would ever own, then he wants the share price to continue to go up. But that's not the case — the \$10 he contributes every two weeks purchases more shares of that fund. If the price goes up to \$20, then his existing balance will go up, but his contribution will only buy half a share. If the price goes down to \$5, his existing balance will decrease, but he will be able to purchase two shares. And historically speaking, if he holds on to that fund, its value should increase over the long term.

So, when I finished explaining this theory to him, he said to me, "You know, I'm really feelin' that, Dean."

I think I am, too.

U for You.

The Dean

DOWN, THEN UP

CHART

Contribution	Price per share	Shares purchased	Total shares owned	Ending account value
\$100	\$10	10.00	10.00	\$100.00
\$100	\$11	9.09	19.09	\$209.99
\$100	\$12	8.33	27.42	\$329.04
\$100	13	7.69	35.12	\$456.56
\$100	14	7.14	42.26	\$591.64
\$100	\$15	6.67	48.93	\$733.95
\$600	Fund return 50%		Your return 22.3%	\$2,421.18

UP, UP, UP

CHART

Contribution	Price per share	Shares purchased	Total shares owned	Ending account value
\$100	\$10	10.00	10.00	\$100.00
\$100	\$8	12.50	22.50	\$180.00
\$100	\$6	16.67	39.17	\$235.05
\$100	\$8	12.50	51.67	\$413.36
\$100	\$12	8.33	60.00	\$720.00
\$100	\$15	6.67	66.67	\$1,000.00
\$600	Fund return 50%		Your return 66.7%	\$1,648.08