Should You Invest Gradually or All at Once?

Dollar-cost averaging has potential advantages—especially in volatile markets.

When you go to the beach, do you run full steam into the water, or do you slowly tiptoe in? Those different approaches have a parallel in the investment world: lump-sum investing and dollar-cost averaging (DCA).

Lump-sum investors put money to work by plunging into an investment all at once. By contrast, investors who use DCA gradually put their money to work in equal increments over a fixed period of time (e.g., six months, one year, etc.). During volatile markets, DCA can help an investor systematically accumulate more shares as the market fluctuates.

Scenario 1: Market Decreases in Value

The scenario below contrasts investing $100,000 using DCA vs. a lump sum when share prices are falling over one year.

DCA Investor			
	Investment	Share Price	# of Shares
First Quarter	$25,000	$200	125
Second Quarter	$25,000	$194	129
Third Quarter	$25,000	$188	133
Fourth Quarter	$25,000	$180	139
		Average Share Price: $191	**Total Shares Purchased: 526**
Total Investment	**$100,000**		
Ending Value	**$94,632**		
Loss	**-$5,368**		
Total Return	**-5.37%**		

Lump-Sum Investor			
	Investment	Share Price	# of Shares
First Quarter	$100,000	$200	500
Second Quarter	$0	$194	0
Third Quarter	$0	$188	0
Fourth Quarter	$0	$180	0
		Purchase Price: $200	**Total Shares Purchased: 500**
Total Investment	**$100,000**		
Ending Value	**$90,000**		
Loss	**-$10,000**		
Total Return	**-10.00%**		

Past performance does not guarantee future results. Ending values may differ from totals provided due to rounding. The performance shown above is for illustrative purposes only. Source: Hartford Funds, 4/25.

The investor who used DCA fared better because the average share price ($191) was lower than the lump-sum price ($200).

Scenario 2: Market Increases in Value

The scenario below contrasts investing $100,000 using DCA vs. a lump sum when share prices are rising over one year.

DCA Investor			
	Investment	Share Price	# of Shares
First Quarter	$25,000	$180	139
Second Quarter	$25,000	$186	134
Third Quarter	$25,000	$192	130
Fourth Quarter	$25,000	$198	126
		Average Share Price: $189	**Total Shares Purchased: 530**
Total Investment	**$100,000**		
Ending Value	**$104,894**		
Gain	**$4,894**		
Total Return	**4.89%**		

Lump-Sum Investor			
	Investment	Share Price	# of Shares
First Quarter	$100,000	$180	556
Second Quarter	$0	$186	0
Third Quarter	$0	$192	0
Fourth Quarter	$0	$198	0
		Purchase Price: $180	**Total Shares Purchased: 556**
Total Investment	**$100,000**		
Ending Value	**$110,088**		
Gain	**$10,088**		
Total Return	**10.09%**		

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The lump-sum investor fared better because the purchase price ($180) was lower than the DCA average share price ($189).

Scenario 3: Full-Market Cycle

The scenario below contrasts investing $200,000 using DCA vs. a lump sum over a full-market cycle (i.e., the declining market in Scenario 1 followed by the rising market in Scenario 2).

DCA Investor

	Investment	Share Price	# of Shares
First Quarter	$25,000	$200	125
Second Quarter	$25,000	$194	129
Third Quarter	$25,000	$188	133
Fourth Quarter	$25,000	$180	139
Fifth Quarter	$25,000	$180	139
Sixth Quarter	$25,000	$186	134
Seventh Quarter	$25,000	$192	130
Eighth Quarter	$25,000	$198	126
		Average Share Price: $190	Total Shares Purchased: 1,056
Total Investment	**$200,000**		
Ending Value	**$208,989**		
Gain	**$8,989**		
Total Return	**4.49%**		

Lump-Sum Investor

	Investment	Share Price	# of Shares
First Quarter	$200,000	$200	1,000
Second Quarter	$0	$194	0
Third Quarter	$0	$188	0
Fourth Quarter	$0	$180	0
Fifth Quarter	$0	$180	0
Sixth Quarter	$0	$186	0
Seventh Quarter	$0	$192	0
Eighth Quarter	$0	$198	0
		Purchase Price: $200	Total Shares Purchased: 1,000
Total Investment	**$200,000**		
Ending Value	**$198,000**		
Loss	**-$2,000**		
Total Return	**-1.00%**		

Past performance does not guarantee future results. Ending values may differ from totals provided due to rounding. The performance shown above is for illustrative purposes only. Source: Hartford Funds, 4/25.

Bottom Line: If you have the foresight to invest when the market is at or near a bottom, lump-sum investing would likely give you better results than DCA. But timing the market is nearly impossible, and markets are typically volatile. Therefore, DCA can be a prudent way to get invested—and stay invested—during volatile markets.

Talk to your financial professional to discuss the potential benefits of DCA in volatile markets.