QUAY
FINANCIAL PLANNING

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Cost averaging your investments

Reducing the risk of investing in volatile markets

Cost averaging, or pound cost averaging, is an investment approach that involves dividing up the total amount to be invested into equal amounts and investing these at regular intervals over a period of time.

This strategy has become increasingly popular due to its ability to reduce the risk of investing in volatile markets, as well as its simplicity. So let's consider some of the reasons why investors may choose to take this approach.

MAXIMISE RETURNS

By investing equal amounts, it enables you to build up your investment portfolio over time. Making regular monthly payments of £1,000 into an investment fund is a less daunting and more manageable approach than investing a single lump sum of £500,000 or more.

Pound cost averaging investing also means you take advantage of price fluctuations in the market. By regularly making investments, you can potentially buy assets at lower prices when they decline or sell them at higher prices when they rise. This helps to maximise returns while still mitigating some of the risk associated with large lump sums being invested all at once.

MARKET FLUCTUATIONS

Pound cost averaging also makes it easier to keep to a consistent investment plan, as the amount to be invested and the intervals between investments are predetermined.

This ensures you don't become swayed by market fluctuations or fall prey to impulsivity, which can lead to poor decisions. Additionally, pound cost averaging eliminates the need for frequent monitoring of your portfolio since investments are made automatically at regular intervals.

DISCIPLINED APPROACH

This strategy allows investors to maintain a disciplined approach and build up their holdings over the years without needing large amounts of capital upfront.

Pound cost averaging can also reduce transaction costs since fewer assets need to be bought in order to reach the desired total investment amount when compared with investing all at once.

EFFECTIVE STRATEGY

Ultimately, pound cost averaging is an effective strategy for appropriate investors who want to reduce the risk of investing in volatile markets, but at the same time still take advantage of price fluctuations.

By dividing up the total investment into equal amounts and investing at regular intervals over time, this approach can help to maximise returns while minimising volatility. Being able to simplify the investment process and reduce transaction costs makes pound cost averaging an effective way for investors to manage their portfolios efficiently. ■

LOOKING FOR A TAILORED SOLUTION TO HELP YOU ACHIEVE YOUR FINANCIAL GOALS?

Investing in appropriate assets for your investment goals is an effective way to build your wealth over the long term. It also provides several key benefits, such as compounding returns, diversification of risk and tax-efficiency. To talk about your investment goals, please contact us.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN YOU INVESTED