ADVANCE
ASSET MANAGEMENT

REGULAR SAVINGS PLAN

Removing the guesswork from investing

February 2015

For most investors, the ability to predict the exact moment you should buy into the market – and the exact moment to sell in order to reap huge rewards – continues to be as elusive as winning the lottery.

Much like most things in life, taking a slower measured approach to investing can result in a better long term result. Using a regular savings plan allows you to be consistently invested in the market over time in smaller amounts rather than needing to predict the future.

How it works

Invest a fixed amount of money in a share or managed fund at regular intervals (usually monthly or quarterly) regardless of the price and stick to it. This means you'll purchase more shares or units (like in an Advance Multi-Blend Fund) when prices are low, and fewer shares or units when prices are high. It means you are investing over time rather than a lump sum at one point in the market. The risk of a lump sum at a particular point is that if you have judged it correctly (bought low, sold high) you may make a lot of money, but if you have bought high and then sold low, you could lose out.

Employing a regular savings plan takes advantage of the following

1. **Makes the best of a market downturn** – if the market is falling it means you can buy more shares/units when they are cheaper. The additional shares/units will result in greater gains when the market eventually rebounds and the value of them increases.
2. **Potential to reduce risk** – investing a lump sum of money into the market at one point in time can increase your potential for loss of capital when markets are volatile.
3. **Potential to reduce the cost base in volatile periods** – spreading the purchase so you receive more shares/units when prices are low and less when prices are high can result in a lower average cost than if you purchase all at once.
4. **Avoids emotion** – investors tend to be less inclined to purchase shares/units in times of falling prices even though this may offer good long-term opportunities, depending on the company or fund. Using a regular savings plan ensures you are still investing at times you might normally be less inclined to.
5. **Eliminates market timing** – build your position progressively without attempting to find the elusive bottom of a price swing.

This approach can work well during volatile markets and for investors who want to avoid the need to accurately determine when markets have peaked or hit their bottoms, but you should discuss with your adviser whether this is the right approach for you. It does not guarantee gains and if you were able to pick the bottom of a market cycle and the peak, you may generate a higher return than a regular savings plan (though with a likely greater risk). A more consistent approach to investing can also mean that, while you will end up with more shares/units for your spend at low points of the market, you are also spending the same for less shares/units at high points of the market.

A tale of two investors

Please note this example is fictional and simplified for explanatory purposes.

In this example, Mark and Louise both have $50,000 to invest in a managed fund. Mark invests the full $50,000 as a lump sum at the start of the year while Louise spreads her investment payments over five months ($10,000 per month).

Over the period, there is some movement in pricing meaning that in some months, Louise is able to purchase more units in the fund for her money. This is shown in the table on the right.

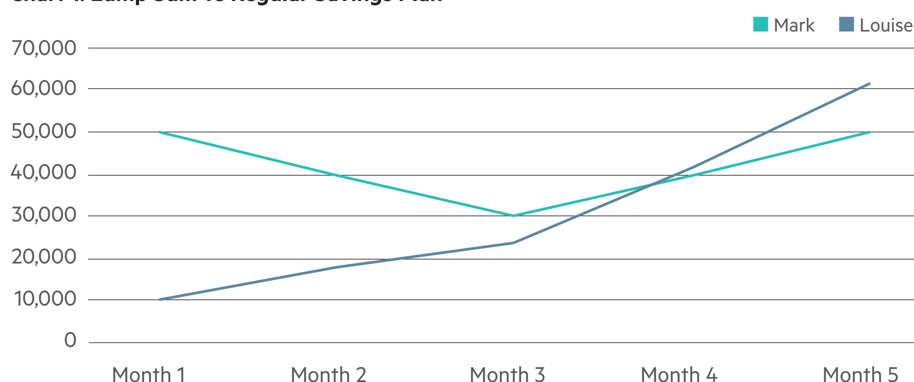
While this is a very simplistic example aiming to illustrate using a regular savings plan, you can see that due to the change in the unit price over the period, by investing his entire super in one lump sum at a higher unit price, Mark purchased fewer units than Louise. Because the unit price decreased, Louise was able to buy more units with the same total investment amount. Therefore Louise has a magnified advantage from subsequent unit price increases.

Basically, this example indicates that taking a consistent long-term approach to investing may offer long-term benefits without needing to identify the single best time to invest with a lump sum. By continuing to invest when unit prices are falling you may be able to better position your investments for future growth when the economies and market performance improves.

Example: Mark and Louise

MONTH	UNITS PURCHASED – MARK	UNITS PURCHASED – LOUISE	UNIT PRICE	VALUE OF INVESTMENT – MARK	VALUE OF INVESTMENT – LOUISE
1	1,000	200	50	50,000	10,000
2	0	250	40	40,000	18,000
3	0	333	30	30,000	23,490
4	0	250	40	40,000	41,320
5	0	200	50	50,000	61,650
TOTAL	**1,000**	**1,233**			

Chart 1: Lump Sum vs Regular Savings Plan



To set up a regular savings plan for your investments, speak to your financial adviser.

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