



Lisa Dickholtz, CFP®

NEWS

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HIGHLIGHTS / STORY IDEAS

- Dollar cost averaging can be especially effective during a market downturn.
- Local financial advisor reminds investors that the market is on sale.
- Bylined version available upon request.
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Steady As You Go

Local Advisor Explains How Dollar Cost Averaging Serves as an Alternative Strategy to Market Timing

CHICAGO, IL (July 9, 2009) — Although consumers react positively to a 25% off sale on apparel or sporting goods, the same shoppers flee when the market is on sale. Lisa Dickholtz of Dickholtz Wealth Management explains, “When the market climbs, investors perceive their only risk as not investing fast enough to benefit from certain gains. And when the market plummets, the prevalent fear is that stocks will slide even lower.”

For example, somebody who moved into cash in early March this year, when market sentiment was arguably worse than last summer, would have missed the strong gains of the past few months. Rather than make misguided attempts to time investments to hit market upswings, perhaps the best approach is to try and control the inevitable volatility. An investment strategy known as dollar cost averaging can be especially effective during a market downturn.

Dollar-cost averaging involves investing a fixed dollar amount at pre-determined intervals, as is done with a 401(k) plan. Set monthly contributions buy fewer shares when the market is up and more shares when the markets are down, resulting in an average cost per share over time.

Today, even the most disciplined investors, fearful that the market will decline further, are questioning whether it's wise to stick with dollar cost averaging and continue to make their regular contributions to 401(k) plans and IRAs. However, studies* have shown that dollar cost averaging may result in better long-term returns than strategies that involve moving in and out of the market, known as “market timing.”

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A recent Fidelity study, for example, evaluated how various market timing strategies would have compared to simply sticking with a plan to invest \$500 each month into an S&P 500 Stock portfolio from January 2000 to January 2004, a period that included the technology bubble and the beginning of the market's recovery. Fidelity found the "Stay-the-Course Investor" who maintained a dollar-cost averaging approach throughout the period fared better than the "Bear Market Dodger" who shifted 100% of new contributions to cash before incurring any losses, and moved 100% of new contributions back into stocks as the market resumed a long-term uptrend; the "Bear Market Refugee" who shifted all new contributions to cash at the onset of a bear market (20% drop), and 100% of new contributions back into stocks as the market resumed a long-term uptrend; and the "Doomsday Capitulator" who shifted 100% of new contributions to cash at the bear market's cyclical low point, and 100% of new contributions back into stocks as the market resumed a long-term uptrend.

"While the discipline of dollar cost averaging should remove emotions from the investing equation, the strategy does not advocate operating on auto-pilot," says Dickholtz. "Especially in this volatile market, you need to review your accounts and rebalance more frequently. If you have moved 401(k) assets to low-risk investments such as Treasury bonds to ride out the market storm, you may want to start moving back into a more aggressive allocation. Moving your assets a little at a time via dollar cost averaging rather than all at once reduces your risk. You might also decide to keep existing assets invested in a conservative fashion to preserve your wealth, but take on more risk with your new regular contributions."

Investors, whose company has stopped matching 401(k) contributions, may need to develop a plan to save more on their own. "Don't stop contributing to the plan even if your employer stops," says Dickholtz. "In fact, try to increase your contributions if possible." It could be worthwhile to also set up automatic contributions to an investment plan in addition to the 401(k) such as a mutual fund or IRA account. However, tax deductions can only be claimed on the higher of the two accounts, so it's wise to speak with a financial advisor and tax consultant to determine the best strategy.

For those who have retreated entirely to the sidelines, dollar cost averaging could be a lower risk way to get back in to the market. As markets start going back up, investors who keep avoiding stocks will not participate in the gains. However, those who invest a fixed dollar amount every month will be much better positioned to benefit from the market's eventual rebound.

"Especially in a recession, dollar cost averaging remains a long-term investing strategy that helps eliminate potentially harmful temptations to time the market," says Dickholtz. "Sure, it's possible that the market will retreat further in the coming months, but in the eyes of a disciplined Dollar Cost Averager, the decline presents an ideal buying opportunity."

As any Costco shopper knows, it feels great to get more for less.

About Lisa Dickholtz

Lisa Dickholtz has been a part of the financial services industry for 21 years. As President of Dickholtz Wealth Management in Northbrook, IL and a wealth advisor with Securities America Advisors, she specializes in aiding families, family stewards, widows and single women in the growth and preservation of personal and family wealth. Dickholtz takes a collaborative approach to addressing her client's needs by consulting with a team of

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professionals, including CPAs and attorneys, in order to assess and formulate customized plans for accomplishing personal financial objectives.

Dickholtz holds a Bachelors degree in Management and Finance from Purdue University. She is a CERTIFIED FINANCIAL PLANNER™ practitioner having earned the CFP® designation from the CFP Board of Standards. Throughout her career Dickholtz has made a commitment to educate others on simple but important steps that will help them to make financially sound decisions. She has conducted numerous financial planning workshops and has been featured in the Chicago Tribune. Learn more at www.dickholtzwm.com.

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NOTE:

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Dollar cost averaging involves continuous investment in securities, regardless of the fluctuating price levels. Investors should consider their ability to continue purchases through periods of low price levels or changing economic conditions. However, such a plan does not assure a profit and does not protect against loss in declining markets.

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