

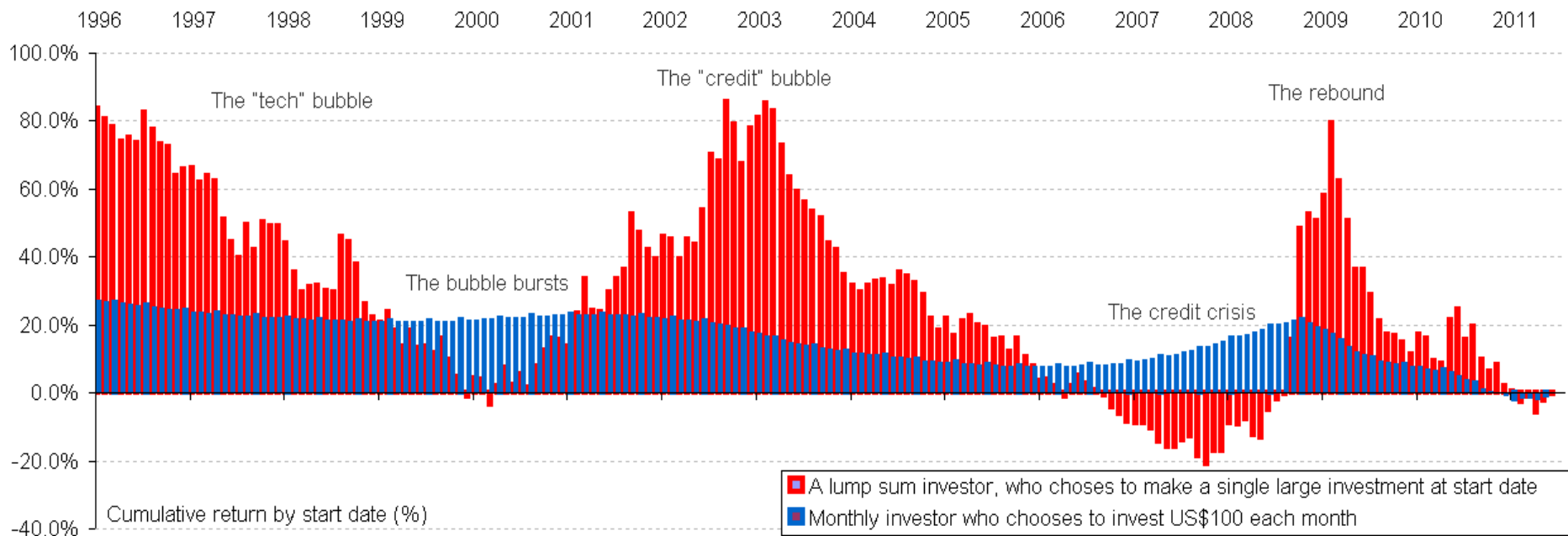
Monthly or lump sum investing during volatile times?

AT A GLANCE

AUGUST 2011

- Investors have a choice:
 - they can risk timing the market with a single lump sum – and either win big or lose big.
 - or** make monthly investments (known as cost averaging) that have tended to provide less extreme cumulative returns.
- Each bar in the chart below represents the cumulative return to date achieved by an investor if they had invested at the start date on the horizontal axis.
- An additional benefit of cost averaging is that an investor is forced to put money into the market when it feels least comfortable to do so. This ensures that investors do not miss out when shares become very cheap after market corrections.

HOW MUCH WOULD AN INVESTOR HAVE MADE IF THEY INVESTED MONTHLY OR MADE A LUMP SUM INVESTMENT AT VARIOUS DATES?



Source: DataStream, MSCI AC World Index (TR), USD, 09.08.2011. Each bar shows the cumulative return based on investing at that start date.

1 This is for investment professionals only and should not be relied upon by private investors



In the long run, time in the market is safer than timing the market

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- The risks with lump sum investing are more binary than cost averaging. Some investors are brave or lucky enough to buy in at market lows. For example, our analysis shows that a lump sum investor who invested during the stock market bottoms of Apr-03 and Mar-09, would have made a cumulative return to date of **85%** and **80%**, respectively.
- However, a lump sum investor who invested during the height of stock market rallies in Apr-00 and Nov-07, would have lost **-3%** and **-21%**, respectively.
- Monthly cost averaged investors, who started investing prior to the end of 2009, have achieved a narrower but critically **positive range of returns** of between **7%** and **27%**.
- Measures of valuation and sentiment suggest this may be a good time to invest, but there is no right or wrong answer to which strategy an investor should use - it depends on attitude to risk. For those that accept market timing is very difficult to get right, cost averaging removes the guesswork and the risk of getting the timing all wrong.

“History shows that extreme equity market volatility as we are now experiencing should be seen as a time of opportunity rather than a time to become more defensive.”

Anthony Bolton, China equities

“If you buy equities across the board, and you do it over time so you don't put all your money in at the wrong time ... that's probably the best investment most people can make.”

Warren Buffet, Legendary Investor

“Dollar cost averaging enables you to put a fixed amount of money into an investment at regular intervals. Every week, month, or calendar quarter, you buy more - whether the markets have gone (or are about to go up), down, or sideways.”

Benjamin Graham, The Intelligent Investor

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