

DOLLAR COST AVERAGING



1 Dollar cost averaging may give you higher returns with less risk..... in 'bear' markets

There are two types of markets: 'bull' markets and 'bear' markets.

Bull markets relate to those periods when the market is trending upwards. Conversely, bear markets are flat or downward trending.

In bear markets, the tendency for most investors is to stay on the sidelines and wait for signs of a market recovery before investing.

This makes sense. After all, why invest in a market which is either falling or going nowhere?

The problem, however, is that it is very difficult – many say impossible – to determine when the next bull market is about to start. In fact, it is usually only after many months of excellent returns that a bear market is declared over and a bull market officially in play.

As a result, most investors sit on the sidelines for too long and therefore miss out on the substantial gains made at the very start of a bull market.

So, if it is impossible to perfectly time your investment entry point, is it better to invest near the start of the bear market... or wait until after the next bull market begins?

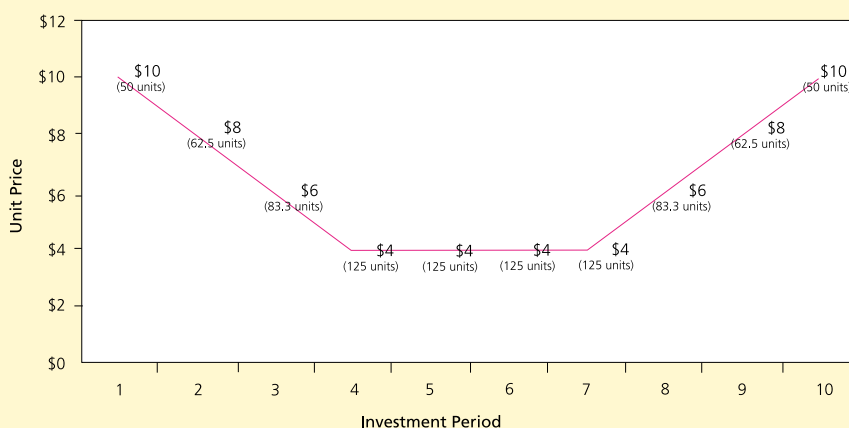
The answer is neither.

Adopting a 'dollar cost averaging' strategy during a bear market may be one way to avoid issues of market timing. This is where you invest the same amount of money on a regular basis over a number of years.

There are two performance benefits from this approach. Firstly, you are not putting all your money at risk should there be a large market fall early in a bear market. And secondly, you are assured that a portion of your money will participate in the early gains of the next bull market.

Here's how dollar cost averaging works. We'll assume you make a total of ten \$500 investments, as shown in Chart 1 below.

Chart 1: Dollar Cost averaging excels in a bear market (\$500 investments)



Source: Zurich

3

3 things you need to know about dollar cost averaging

As you can see, when the unit price falls, your \$500 buys more units. So, during a bear market, dollar cost averaging ensures you buy cheaply.

In this example, your \$5,000 investment will result in your acquiring 891.6 units over the period, which at the end of period will be worth \$8,916. Which means your \$5,000 investment has grown by 78% (most of during a bear market), with a bull market in front of you.

Compare that profit to the zero result you would have achieved if you had invested all of your money at the start of the bear market...or a short while after the start of the new bull market.

Comparison of Results*	Amount invested	No. of units purchased	Value at end
Dollar cost average	\$5,000	891.6	\$8,916
Invest all at start of period	\$5,000	500	\$5,000
Invest all at end of period	\$5,000	500	\$5,000

* Please note that this is an example only and not based on real unit prices of any funds and does not take into consideration entry or ongoing fees.

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Dollar cost averaging may help you to overcome one of the biggest hurdles there is to becoming wealthy.

Why are the vast majority of Australians not wealthy?

It is not because they don't earn enough. It's not because they choose the wrong investments..... or because they pay too much tax.

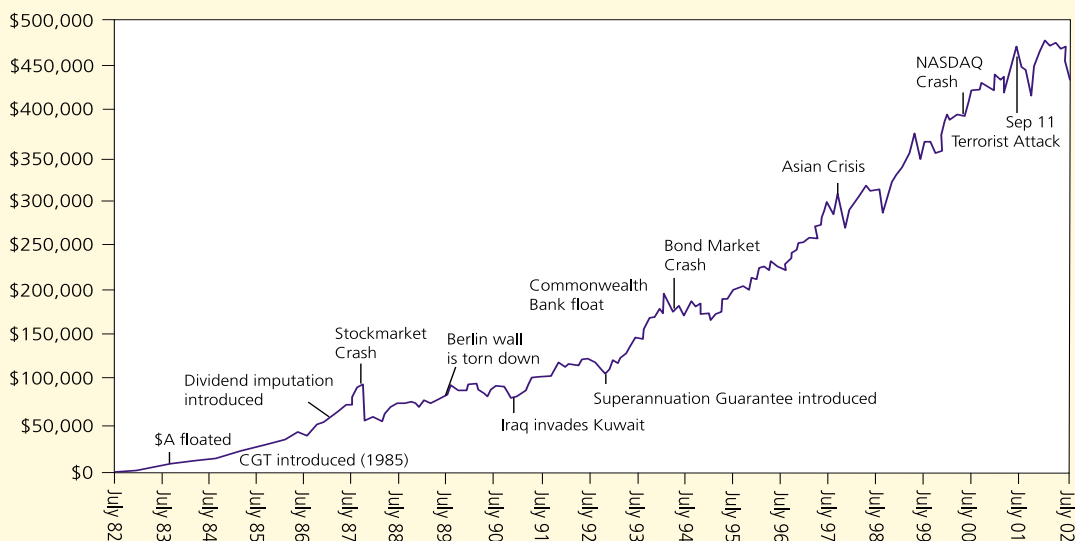
One of the main reasons why most Australians are financially dependent is because they never put a wealth accumulation plan in place – and stick to it.

Most Australians dream of becoming wealthy, but they never get around to making sure it happens. They never prepare a budget, which includes setting aside a sum of money from each pay cheque and placing it in good solid investments.

Or if they do, they usually last only a few months or years – and so never give the plan time to work.

Chart 2: How \$500 per month turned into \$434,597

All Ordinaries/ASX 200 Accumulation Index August 1982 – August 2002
((\$500 invested on the first day of each month))



Source: Zurich

One solution to this problem is dollar cost averaging. Because this strategy comes with in-built discipline – each month you can have money direct debited from your bank account and automatically transferred into your investment.

You don't have to remember to make the investment, and nor do you have the chance to spend the money on something else.

It's a case of 'if you don't see it, you won't miss it.' And it ensures your investment account grows steadily over the years.

When employed for long enough – and with the use of good investments – dollar cost averaging becomes a powerful wealth creation strategy.

As an example, consider Chart 2 which shows that if you had invested \$500 on the first day of every month since July 1982 in the Australian All Ordinaries Accumulation Index, you would now have \$434,597.

As the chart shows, there were many sharemarket corrections and bear markets over these 20 years, however by investing just \$500 a month – every month without fail, in bear markets and bull markets – you would be well on your way to becoming wealthy!

3 Dollar cost averaging can help you reach your investment goal sooner

You don't have to wait until you have a large sum of money to invest to start your investment plan. In fact, by starting with a small amount of money and making regular investments you may reach your investment goal sooner, thanks to the power of compounding.

Henry Ford once said that compound interest was 'the eighth wonder of the world'. Compound interest means that, in each period, your interest is calculated on both the principal and the interest you previously accrued.

For instance, if you started today and invested just \$100 each month into an investment returning 10% pa, at the end of twelve months, your investment would be worth \$1,264. This may be a much easier investment strategy than waiting until you have a lump sum of \$1,200 to invest – and your investment is worth an extra \$64 from the compounding effect.

So which funds suits a dollar cost averaging strategy?

There are some investments which do not suit dollar cost averaging. Direct investments in property, for example, are not suitable because you must buy the property upfront.

Other direct shares may not suit dollar cost averaging, partly because of the inflexibility of the rules governing the buying of shares such as minimum parcels to be purchased and partly because some may not offer direct debit facilities and the onus is on you to do it each month.

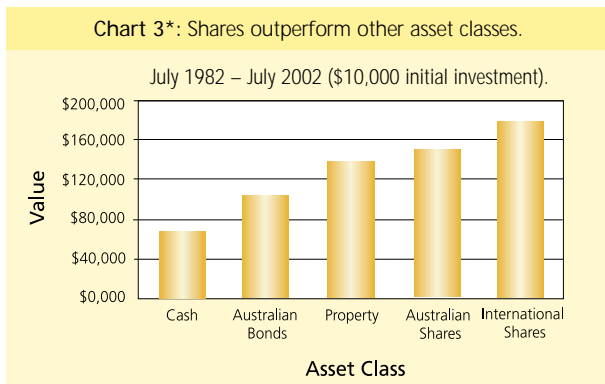
That's why one of the best investments to use for dollar cost averaging are managed funds, such as those offered through Zurich's range of managed investments.

These funds offer an investment savings plan, which gives you all the flexibility and discipline you need, as well as professional management of your money.

Why do we suggest that a significant portion of your dollar cost averaging strategy should be invested in shares and property (via a managed fund)?

It's because they are the highest performing asset classes over the long term.

As you can see in Chart 3 overleaf, a \$10,000 investment in the Australian All Ordinaries Accumulation Index 20 years ago is now worth \$149,513 (assuming income was



Source: Zurich

reinvested). The same investment in international shares would have grown to \$175,560. While listed property trusts – which invest in retail, commercial, industrial, tourism and residential property – turned \$10,000 into \$136,532. The performance of bonds and cash over the same period falls a long way behind shares and property with cash only returning \$66,209 over that period.

Dollar Cost Averaging with Zurich

You can employ a dollar cost averaging strategy by using any of the funds in Zurich's Managed Investments range.

Once you complete the application form, together with the direct debit form, we'll start the regular direct debits from your bank, building society or credit union account.

You choose how much you want to invest, and how often. The only requirement is that you have a minimum initial investment of \$1,000, plus you invest at least \$100 per month or \$250 per quarter.

Zurich will send you quarterly transaction statements detailing your regular contributions and investment performance. We can also provide transaction statements at any time on request from our Client Service Centre.

To begin your investment savings plan today,

complete the application form and direct debit form in the current Zurich Managed Investments prospectus.

For more information, contact your financial adviser, speak with one of our client services staff by calling 131 551 or visit our website at www.zurich.com.au

The Zurich Investment Savings Plan

- Start with just \$1000
- Minimum investment of just \$100 per month or \$250 per quarter
- Available on all funds in the Zurich Managed Investments range
- Automatic direct debits from your Australian bank, building society or credit union
- Change your contribution level at any time by notifying us in writing
- Nominate the day you want your account debited to make budget planning easier
- Simply complete the application form and direct debit form in the back of the prospectus. We will take the hassle out of investing while you enjoy the advantages of dollar cost averaging.

* Assumptions for Chart 2

Assumes income reinvested

*Assumes income re-invested

Indices used in Chart 3:

Cash: (RBA 90-Day Bank Bill 1982-1987, UBSWA Bank Bill Index 1987-2002)

UBSWA Composite Bond

Property: S&P/ASX 300 Property Trusts Accumulation Index

Australian Shares: S&P/ASX All Ordinaries (ASX500 after 1/4/2000) Accumulation Index

International Shares: MSCI World (ex Aus) Accumulation Index

Disclaimer

Performance is not a reliable guide to future performance.

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