InvestmentInsights.com

Investment Strategy | Dollar Cost Averaging vs Value Averaging

DCA vs Value Averaging: A Comparison of investment Strategies

Alan F. Skrainka, CFA
Chief Investment Officer

"Don't try to buy at the bottom and sell at the top. It can't be done – except by liars." *– Bernard Baruch*

Executive Summary

Dollar Cost Averaging is a disciplined, systematic investment strategy where an investor allocates a fixed amount of money at regular intervals (e.g., monthly or quarterly) into a particular investment, regardless of the asset's price. The key idea is that over time, the investor buys **more shares when prices are low** and **fewer shares when prices are high**, which can reduce the average cost per share.

Dollar Cost Averaging vs. Value Averaging: A Comparison of Investment Strategies

Example of Dollar Cost Averaging:

Imagine you invest **$500 per month** into the market. Here's how your investment might look over five months:

Month	Share Price	Amount Invested	Shares Purchased
Jan	$50	$500	10.00
Feb	$40	$500	12.50
Mar	$25	$500	20.00
Apr	$35	$500	14.29
May	$50	$500	10.00
Total	—	**$2,500**	**66.79** shares

- **Average price paid per share:** $2,500 ÷ 66.79 ≈ **$37.44**

- **Simple average share price:** ($50 + $40 + $25 + $35 + $50) ÷ 5 = **$40**

  In this example, dollar cost averaging resulted in an **effective cost basis lower than the average price** of the investment.

DCA During the Great Depression

It is difficult to imagine someone would have the means, or the fortitude to dollar cost average during the Great Depression. But this amazing example illustrates the power of a disciplined, systematic investment strategy like DCA. Assuming an investor had invested $100 per month starting from the onset of the stock market crash in September 1929, here are the estimated results of a total contribution of $6000 after 5 years, and $12,000 after 10 years:

Estimated Total Investment Value

Period	**Estimated Final Value**	**Approx. Average Annual Return**
After 5 Years	$5,797	–1.4%
After 10 Years	$12,739	1.2%

These values are based on historical return estimates for the S&P 500 and assume reinvestment with consistent monthly contributions. Admittedly, the return is not enormous, but this was over a period of time when the DJIA peaked at 381.17 on September 3, 1929, and bottomed at 41.22 on July 8, 1932, a total decline of -89%. Five years Later (September 1934): the DJIA had only partially recovered, closing around 104.04 in September 1934. That's still down roughly -73% from the 1929 peak. Ten years Later (September 1939), the DJIA was at approximately 150.24, still down -61% from the 1929 peak. In fact, it took 25 years, until 1954, for the DJIA to regain its 1929 high (breakeven).

What Is Value Averaging (VA)?

Value Averaging is a more dynamic strategy. Instead of investing a fixed amount each period, you adjust your contributions so that your portfolio reaches a predefined target value at each interval. When prices fall, you invest **more** to stay on target; when prices rise, you invest **less** or even sell to stay on track.

Example of Value Averaging:

Let's say you want your investment to grow by **$500 per month**. If your portfolio value is short of that target, you invest the difference; if it exceeds the target, you might sell.

Month	Target Value	Actual Value	Investment Made
Jan	$500	$0	$500
Feb	$1,000	$950	$50
Mar	$1,500	$1,200	$300
Apr	$2,000	$2,300	**-300** (sell)
May	$2,500	$2,600	**-100** (sell)

This method **forces investors to buy low and sell high**, theoretically improving long-term results.

Comparison: Dollar Cost Averaging vs. Value Averaging

Feature	Dollar Cost Averaging (DCA)	Value Averaging (VA)
Contribution Amount	Fixed	Variable (based on portfolio value)
Simplicity	Very simple	More complex; requires regular monitoring
Reaction to Market Dips	Buys more shares	Buys more and targets value gaps
Reaction to Market Surges	Buys fewer shares	May reduce investment or sell shares
Emotional Discipline	Easy to stick with	Harder to execute; can trigger tax events
Tax Efficiency (taxable)	High (buy only)	Lower (may sell and realize gains)
Evidence of Outperformance	Modest over time	Potentially better in volatile markets

---

Which Is Better?

- **Dollar Cost Averaging** is simpler, easier to automate, and excellent for **beginner investors** or those contributing to retirement accounts like IRAs or 401(k)s.
- **Value Averaging** may lead to **higher returns in volatile markets**, but it's **more complex**, requires more cash flexibility, and **may trigger taxes** if used in a taxable account.

  Bottom Line:

- If you prefer **simplicity and consistency**, use **Dollar Cost Averaging**.
- If you are **more experienced**, have **cash reserves**, and want to maximize long-term returns with more effort, **Value Averaging** may be worth exploring.

Disclosures:

*Investment Insights.com is a publisher of financial education content and is **not a registered investment advisor, broker-dealer, or financial planner**. The information provided on this website is for **general informational and educational purposes only** and does **not constitute investment advice, a recommendation, or a solicitation to buy or sell any security**.*

*Model portfolios, mutual fund reviews, and ETF analyses reflect the views of the author at the time of publication. They are **not tailored to any individual's financial situation, investment objectives, or risk tolerance**. This content is illustrative in nature and should not be relied upon as a basis for making investment decisions.*

***Investing involves risk**, including the potential loss of principal. Past performance is not indicative of future results. Investment returns will fluctuate, and investors may receive more or less than their original investment upon redemption.*

*ETF shares are bought and sold at market price (not NAV) and may trade at a premium or discount. Brokerage commissions and trading costs may apply. **Diversification does not guarantee a profit or prevent loss.***

*Before investing, investors should carefully review the fund's prospectus, which includes information about investment objectives, risks, charges, and expenses. **Prospectuses are available from the fund provider's website** and should be read carefully before investing.*

*All information is provided "as is" without warranty of any kind. Although sources are believed to be reliable, accuracy and completeness are not guaranteed. **Investment Insights.com does not offer personalized advice or establish a fiduciary relationship.** Always consult a licensed financial professional before making investment decisions.*

This content is intended for U.S. residents and may not comply with legal requirements of jurisdictions outside the United States.

For questions about this site or to report concerns, please contact us directly.