



Financial Principles, LLC



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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.
- For more information or story ideas visit www.mediasourceportal.com.

Steady As You Go

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

Fairfield, NJ (July 21, 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. Mike Flower of Financial Principles, LLC 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 Flower. "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 Flower. "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 Flower. "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 Financial Principles, LLC

Financial Principles understands the importance of planning – whether it's for retirement, saving for college or even charitable giving. Two senior partners, Bradley H. Bofford, CLU, ChFC, and Mike Flower, bring a combined 25+ years of financial services experience to their clientele. Both are recognized as qualifying life members of the prestigious Million Dollar Round Table, "The Premier Association for Financial

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Professionals[®]. As representatives of Securities America, Inc., Bofford and Flower are able to provide comprehensive services and advice in all areas of personal finance, such as estate planning, retirement planning and tax reduction strategies.

Bofford and Flower believe that a well-informed client is essential for success. They love taking clients from fear to confidence regarding finances, by placing a strong emphasis on educating people about how to prepare for and enjoy a comfortable retirement. Both advisors have contributed to articles in several leading trade publications including Investment News, Financial Advisor, and Research magazine as well as consumer outlets such as BusinessWeek, Money and New Jersey Business magazine. Visit www.financialprinciples.com to learn more about the advisors at Financial Principles.

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NOTE:

When you need a knowledgeable professional to speak on complicated financial topics in an easy-to-understand and comprehensive manner, please call the advisors at Financial Principles.

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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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