Unit Cost Averaging:

During this time of market uncertainty, investors can navigate market volatility by spreading their investment over a period of time through Unit Cost Averaging.

Unit cost averaging is simply the term used to describe the strategy of making regular investments over a period of time as opposed to lump sum investment.

While the amount of money you put in at each interval will be the same, the number of shares that money buys will not. That's because market fluctuations dictate share prices, causing them to rise and fall.

With this approach, you end up buying more shares when prices are low and fewer shares when prices are high.

By following this simple strategy, you can reduce the impact of market fluctuations and downside risk. By buying a fixed euro amount on a regular basis, your focus is on accumulating assets on a regular basis, instead of trying to time the market.

This strategy allows you to take a lot of emotion and fear out of investing because where the market goes in the short-term is far less important to you, as long as you stick to a regular investment plan. If a recession hits the economy and your investment falls in value, you'd just end up buying more shares at a lower price.

Averaging in action:

Let's say at the end of August 2018 you have €300,000 to invest. You are confident the market will rise over the long-term, but are worried about shorter-term headwinds. However, you also know that timing the market is notoriously difficult. So, to lower your risk, you decide to invest €5,000 each month instead over the course. You decide to invest €5,000 each month with an initial up-front investment of €30,000 into Zurich's International Equity fund, for example.

Looking at the first 6 months, the breakdown of your unit cost averaging is as follows:

Lump Sum	
Upfront investment	€30,000
# of units purchased	3,282
6-month return	-1.4%

Unit Cost Averaging	
Monthly investment	€5,000
# of units purchased	3,452
6-month return	3.7%

Source: Zurich, FE Analytics, International Equity fund used

Breakdown of unit cost averaging, when investing €5,000 per month over a 6-month period in the International Equity Fund.

Month	Amount	Unit Price	# of units bought
September 2018	€5,000	€9.14	547
October 2018	€5,000	€9.17	545
November 2018	€5,000	€8.57	583
December 2018	€5,000	€8.72	573
January 2019	€5,000	€8.03	623
February 2019	€5,000	€8.60	581
Total 6 months	€30,000 invested	€8.71 average price	3,452 units

Breakdown of **lump sum** investing in the International Equity Fund.

Month	Amount	Unit Price	# of units bought
September 2018	€30,000	€9.14	3,282
Total 6 months	€30,000 invested	€9.14 purchase price	3,282 units

The obvious benefit from the above example is the higher return generated from unit cost averaging during a declining market (+3.7% vs -1.4%). This is because you end up buying more units when the prices decline, standing you in good stead when the markets rebound. The unseen (and therefore often underappreciated) benefit is psychological. During December, the fund price declined to a low of €7.87, amounting to paper losses of €4,171 (3,282 units * €7.87 = €25,829).

As history has proved, the extent of these losses can often lead many investors to panic and sell out at just the wrong time. Needless to say past performance is not an indicator of future performance and only time will tell whether unit cost averaging outperforms lump sum over the time period. However, if volatility does pick up, by spreading out the timing of your investments, you're minimising potential emotional whipsaws and positioning your capital for calmer waters ahead.