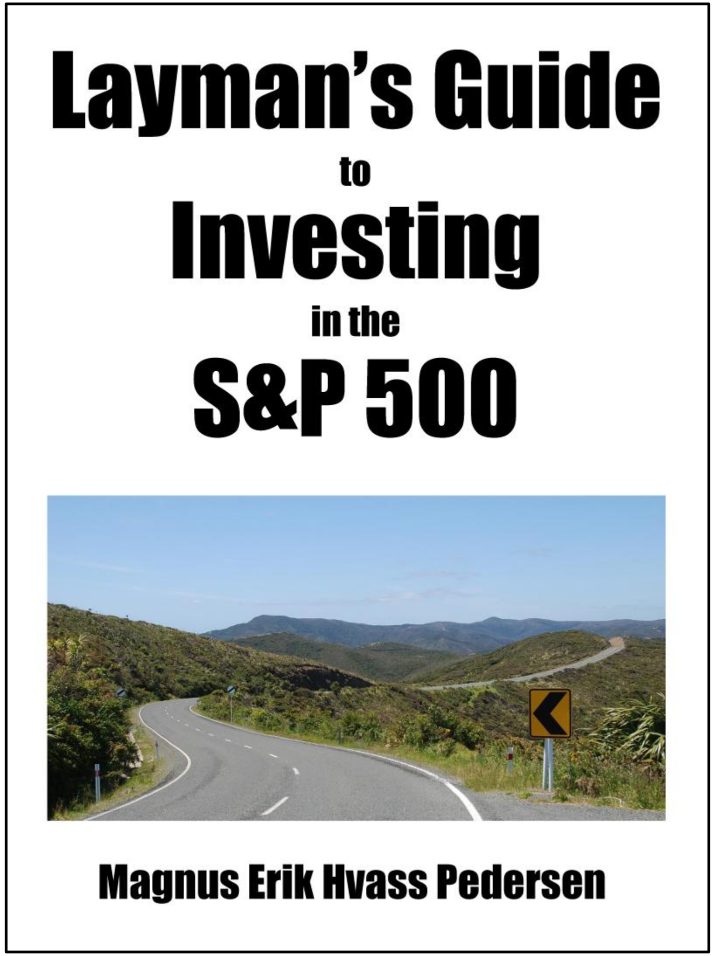

Advantages of Monthly Investing

By

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S&P 500

- The S&P 500 contains the stocks of the 500 largest US companies.
- It allows you to invest with broad diversification at a low cost.
- In the long-term the S&P 500 returned 9.7% per year on average.
- But in the short-term the S&P 500 is very volatile.
- One year it lost half and in another year it gained more than 70%.
- Usually you cannot predict whether the price is high or low.
- An easy solution is to add to your investment in the S&P 500 on a monthly basis. Then you get a good return on average.

Example – 1993 to 2013

- Each month starting January 1993 and for the next 10 years you add to your investment in the S&P 500 – then you withdraw each month.
- In January 2003 you withdraw the money invested in January 1993 plus any returns on the investment. Assume there is no tax.
- During these 10 years the S&P 500 increased from $435 to $909, and with dividends reinvested it returned 9.6% per year.
- If you invested $100 in the S&P 500 in January 1993 and reinvested the dividends, then in January 2003 it would be worth $250.

Example – Best, Worst and Average Returns

- The best 10-year period was between December 1994 and 2004 where the S&P 500 returned 12% per year with dividends reinvested.
- The worst 10-year period was between March 1999 and 2009 where the S&P 500 lost (3.8%) per year for a total loss of (32.4%).
- On average over all the 10-year periods between 1993 and 2013 you earned 5.6% per year.

Example – Optimal Return

- The period between 1993 and 2013 was one of the most volatile periods for the S&P 500 with two of its largest historical crashes.
- If you had been unlucky you could have invested at a peak and sold at the bottom of a crash. You would have lost a third of your money.
- You managed to get 5.6% per year simply by investing every month.
- This is optimal in the sense that it is very close to the average for ANY 10-year period between 1993 and 2013.

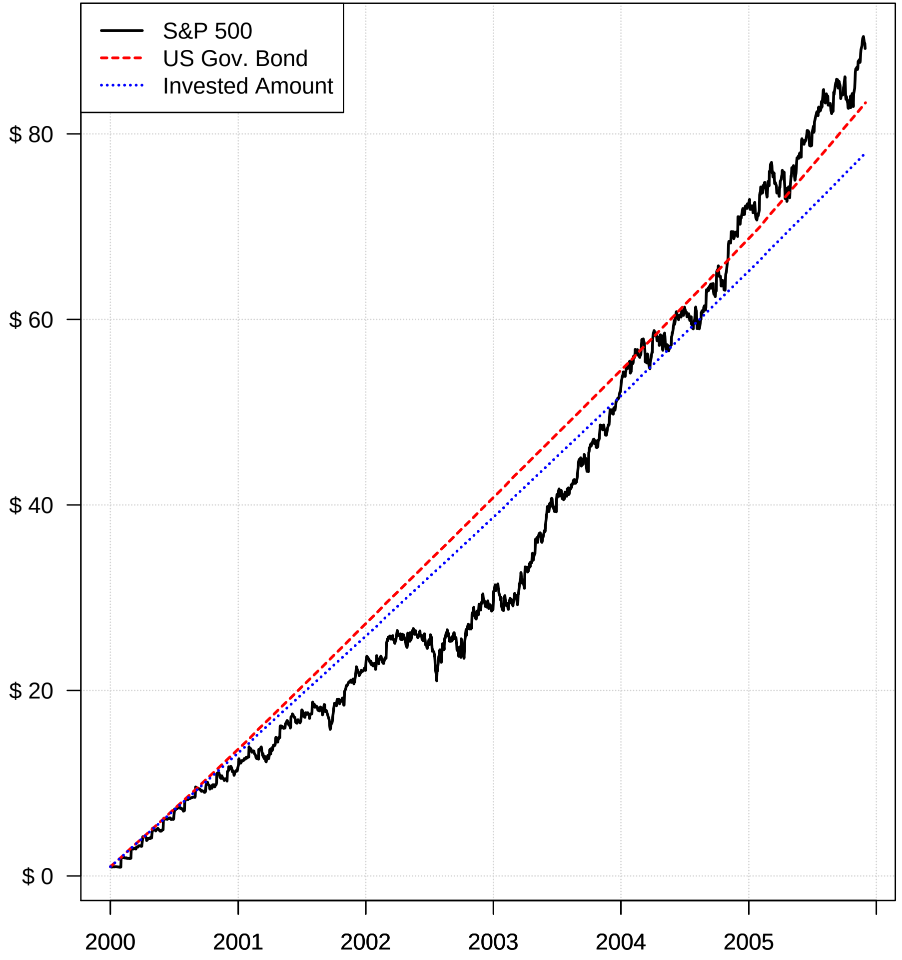
Recovery Times

- The longest crash of the S&P 500 started on September 1, 2000 and first recovered more than 6 years later on October 23, 2006, provided dividends were reinvested and there were no taxes.
- If you had started investing shortly before the crash and continued adding to your investment every month, and increased the amount to match the inflation, then you would have recovered by January 2004.
- Your recovery time would be shortened to 3 years and 4 months.
- This is because you lowered your average purchase price.

Crash of 2000-2006

Plot shows the total amount invested when investing every month.

Also shown is the value when the money is invested in the S&P 500, as well as US government bonds with 1-year maturity.



Conclusion

- Adding to your investment in the S&P 500 every month has several advantages.
- You don't have to predict if the S&P 500 is going to increase or decrease in the future.
- You get a good return on average, over time.
- If the S&P 500 crashes shortly after you begin then you recover your investment faster.

The book gives more details.