UNIT COST AVERAGING EXPLAINED

Global Stockmarkets have recently experienced periods of increased volatility. The market downturns experienced since the beginning of the credit crunch in July 2007 and again in September 2008 have understandably caused some investors to worry about the downside risk to their investments. However it is possible to make volatility work to your advantage.

Regular monthly investing offers a potential benefit known as '**pound-cost averaging**'. Whilst this sounds complicated it simply means that if the market falls, then your regular fixed monthly investment will buy more shares, because the price of each share you are buying will be lower. In a rising market fewer shares will be purchased, but your existing shares will have gone up in value.

The fact more shares are purchased when the price is low and fewer when the price is high can result in the average share price paid being lower than the average share price over a period of a number of years.

Hypothetical example:

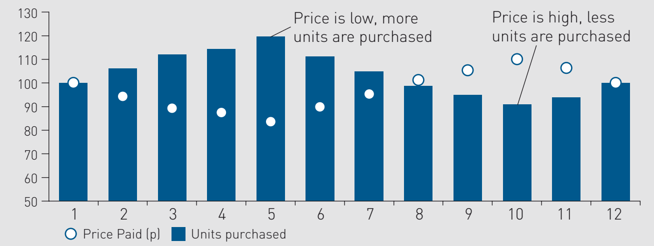
£1200 is invested over a 12-month period at a rate of £100 per month

Month	Unit Price (p)	Amount Invested (£)	Units purchased
1	100	100	100.00
2	94.3	100	106.04
3	89.3	100	111.98
4	87.5	100	114.29
5	83.6	100	119.62
6	89.9	100	111.23
7	95.3	100	104.93
8	101.3	100	98.72
9	105.4	100	94.88
10	110.1	100	90.83
11	106.4	100	93.98
12	100	100	100.00
	Average unit price 96.93p	Total 1,200	Total 1,246.50

- In month one, the unit price is 100p and so the £100 investment buys 100 units.
- In the subsequent four months the price of the units gradually falls and so more units are purchased for the £100 invested each month. As the unit price reaches its lowest point in month five, the most units are purchased for any one month period.
- From month five the unit price begins to rise, reaching its highest point in month 10, where the fewest units are purchased for £100.

In this example, regular monthly investing results in 46.5 more units being purchased than through a lump sum investment, because more units are purchased when the price is below 100p and fewer when the price is above 100p.

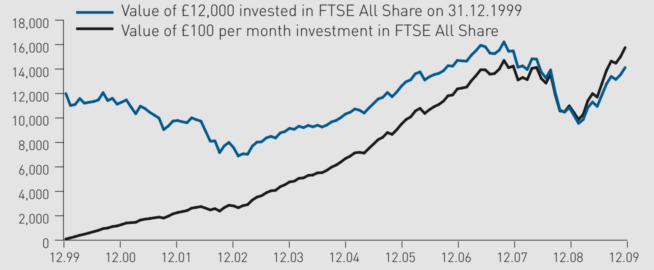
The diagram below illustrates that a £100 a month regular investment buys more units as the price falls and fewer when the unit price rises.



Source: BlackRock, for illustrative purposes only

Actual monthly and lump sum investing returns

The chart below illustrates how £100 per month invested in the FTSE All Share from the beginning of 2000 to the end of 2009 would have performed against a lump sum investment of £12,000 (£100 x 12 months x 10 years). Over this period, monthly investing has produced both a smoother return and a greater return overall. The fall in the market between 2000 and 2003, and 2007 and 2009, meant that regular monthly investment purchased more units and increased the value of the investment when the market recovered.



Source: Datastream from 01.01.2000 to 31.12.2009 on a bid to bid basis with net income reinvested. Returns based on performance of the FTSE All Share.

In volatile markets where a downturn is hard to predict, regular monthly investing can:

- Provide a smoother return,
- Ensure you buy more units when the market price is lower and fewer when the price is higher, lowering the average price paid per unit,
- Reduce the risk of putting all your money into the market just prior to a market downturn.

If you would like to find out how to implement a unit cost averaging strategy please do feel free to contact us at info@SuisseRock.com