Try Dollar Cost Averaging if You're Worried About Investing During Stock Market Highs

By Rita Williams

The stock market is making new highs nearly every day.

If you're a new investor, you might be wondering if you've missed out on a golden opportunity forever. You might have heard the stock market adage "buy low, sell high." If the markets are at a high, the first part of that adage is out of your grasp, isn't it?

No. It isn't. A method called "dollar cost averaging" is a tried and true way of minimizing the risk of buying at stock market peaks — and increasing the chance of profit over the years.

It's important to understand that stock market volatility — the rising and falling of prices — are a constant part of the market. You need to realize that the stock market has both potential benefits and risks, and know how best to manage them.

One of the reasons people invest in the stock market is that today's highs may very well be lower than the highs to come.

That said, highs can also be followed by dips. Since the 1940s, the U.S. stock market has delivered some of the best returns of any investment category. But those returns are calculated on average. They don't happen every single year. Every high in the stock market has been followed by drops. Sometimes they last a day or two. Sometimes they are protracted, and some years show a negative return in the broad market averages. Other years show excellent returns.

If climbing equity prices are reliably followed at some point by declining equity prices, how do you know when to buy?

The answer is simple. Trying to figure out *when* to buy never works. It's termed "market timing" by experts, and good ones never recommend it.

The best way to purchase stocks is to use dollar cost averaging. Dollar cost averaging is buying a certain dollar amount of stock at regular intervals. You choose an amount and buy it at the same time each month.

With dollar cost averaging, you lessen the risk that you will buy at a high. You also increase the chances of buying at a low. It's a way to smooth out, through time and the predictability of your purchases, the rise and fall that are inherent in stock markets.