COVID-19 ACTIONABLE STRATEGY #1

 Austin L. Peterson, CFP®, CLU®,MBA | April 15, 2020

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Here is a transcript of the video:

Hey there everybody, Austin Peterson here with Backbone Financial & Lincoln Financial Advisors. I hope you are doing well, and everybody is staying healthy with what is going on with the Coronavirus. We all know that it is wreaking havoc on a lot of things throughout the world and what is most important is that people stay healthy. I wanted to put together a couple of videos here. I am actually going to put together a series, probably about 8 videos of things that we can control. We can't really control what is going on with the pandemic. I mean we can stay home, like we've been asked to do and hopefully that stops the spread, but we can't control what it's doing to our economy, we can't control what it is doing to the stock market at this point, but there are some things that we can control and I want to talk about some of those things. The first thing that I want to talk about is what is called Dollar Cost Averaging. Several of you or many of you may know what the term dollar cost averaging means, many of you have heard of it, many of you may not be able to explain it. So, I wanted to put together this video that kind of just explains it and really talks about the power behind dollar cost averaging and why we do it. So, let's imagine that you own a business and it doesn't really matter what it is that you buy and sell, but let's say that you are going to put a certain amount of money towards your inventory every single week based on the fact that you know what your demand is. So, you are buying a thousand dollars of widgets a week and the price of the widget goes up and down. So, you spend $1000 every single week to buy however many widgets you can buy that week. Sometimes you can buy 100 widgets, sometimes you can buy 120 widgets, sometimes you can buy 200 widgets, sometimes you can buy 70 widgets. Well, because that price fluctuates…you spend that same $1000 every single week to buy the inventory that you need, and you know that you are able to go out and sell that for a certain price every single week. Your price may fluctuate, as well, but you know that you have got to be able to buy a $1000 worth every week. Well, that is really what dollar cost averaging is in terms of the stock market. So, when the market goes down and you get paid every two weeks, let's say, or you own a business and you distribute money to yourself every two weeks. If you put into your 401(k) plan or whatever retirement plan that you have every two weeks, a certain amount of money, well, as the stock market goes up and down, when it is down, you are buying more shares of whatever investments you have and when it goes up, you are buying fewer shares at the higher price. Same thing holds true with the stock market as holds true with any kind of a business that you have where as you spread out what you are buying…your average price goes down and your profit goes up. So, same concept…it is a concept that everybody kind of understands that we want to buy for as low as we can and sell for as much as we can, but if we buy on That is like buying all of the inventory that you need for the entire year on one day at whatever price that is. Same thing is true with the stock market…do it on an ongoing basis, do it on a regular basis, do it at the same amount and at this point, maybe even increase that amount, based on what is going on in the stock market, because you are really buying some things on discount. So, hopefully that rings true to you, you understand it, you see the power behind it and hopefully you continue to invest on a regular basis into your different retirement accounts. Thank you very much for your time and for listening and I hope to hear from you soon.

Note that dollar cost averaging does not guarantee a profit or protect against loss in a declining market.

Past performance does not guarantee future results. Lincoln Financial Advisors and its representatives do not provide tax advice. Please contact a tax professional regarding your specific situation.

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