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Should You Invest All at Once or Over Time?

With markets so volatile, the human element to investing is very important

The market skyrockets one day, plunges the next. Is this the wobbling before the crash? Should you invest now? If so, how? Everything at once? That’s tempting, but not always wise.

A common question investors ask their financial advisor is this: “Is it too late to invest in the stock market?”

Many people maintained large cash positions since the COVID-recession ended in April 2020 – which was only two months long and the shortest recession in U.S. history. And if those people have not yet invested, they missed the major U.S. equity markets (the S&P 500, the DJIA and NASDAQ) come really close to doubling in about two years – and that’s inclusive of the pullback through mid-April 2022.

In addition, since the COVID-recession ended, the S&P 500 CBOE Volatility Index (VIX), an oft-cited yardstick of how stocks move up and down, declined by 2/3, peaking at about 66 and declining to the low 20s. That indicates market turbulence, although nowhere near as much as back in March 2020.

What is Your Goal for Investing?

If the investing question nags you, first clarify what you want to achieve with your money.

Maybe you have long-term goals and objectives, such as leaving a legacy or ensuring that you don’t outlive your money – which usually requires investing in the stock market, which historically outperforms other market classes over the long term (with some scary downswing along the way).

Even if you come to understand the necessity of investing, you may be reluctant to re-position a large amount of your cash in a market that continues to hit record highs and see staggering dips on any given day. What do you do now with cash?

Behavioral Finance Becomes Critical

Behavioral advisors look not just to your financial understanding, but also to the human element in your investing. Behavioral finance holds that people make decisions based on impressions and beliefs rather than on hard facts and rational analysis. And if you’re like most people, you tend to hurt more when you make a decision that appears incorrect, than when you score a victory.

For example, if you decide that you have $100,000 to put in the stock market to generate returns you need to reach a certain goal, do you invest all today or invest gradually over time? If you invest the entire $100,000 as a lump sum in the market today and Wall Street suddenly tanks, you may regret the move – at least on a gut level and when looking at only the short term. If this regret inspires you to reverse course and sell the investment, the future gains you never realize in turn hurt your overall returns in the long run.

Dollar-Cost Averaging

On the other hand, investing systematically over time might lessen some of the regret. Investing $10,000 a month over 10 months or $20,000 for five months can ease your mind if the market declines initially and rebounds later. This investing, aka dollar cost averaging (DCA), often works well in market downturns.

Does DCA make sense for you? It does for many. The method can give investors good long-term results – and some freedom from worry about money.

You don't necessarily want just the best investment portfolio in the world – but the best investment portfolio and investment experience to reach your goals.

Relate your money to your life work with a financial advisor who can help you with your behavioral investing.

So you can sleep better at night.