Dollar Cost Averaging, Index Funds, and the John Lee Dumas Approach

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Dollar cost averaging into index funds is seen as a bit humdrum these days by many investors, but maybe it deserves another look. I recently had the honour of speaking with podcasting legend, John Lee Dumas, on my own podcast, Get Invested.

As host of the hugely popular, Entrepreneurs On Fire podcast, John has probably picked the brains of more of the world's top entrepreneurs and investors than anybody, so it's intriguing to see where he puts his own money. It turns out he's a fan of dollar cost averaging into index funds – quite a simple, basic-to-basics, long-term approach, to which John adds his own particular twist for a bit of spice. It's what he calls 'The Explorer'.

What Is Dollar Cost Averaging?

Essentially, dollar cost averaging is a way of investing that smooths out the bumps in the market. John has a neat way of explaining it: "Hey, you may not have $100,000 to drop into the market right now, but if you're able and willing to drop in 200 bucks a month, on the first of every month, into an index fund, you're dollar cost averaging, meaning when the market is up you're buying less shares, because you're investing just that $200, when the market is down you're buying more shares," he says. "Over time, with the trending of the market, over 30, 50, 70 years, that's going to return a really great investment for you, so, for me, dollar cost averaging was a great piece of advice."

What Is An Index Fund?

Index funds simply track the movements, or mimics, a particular group of shares or a whole market. In essence, this means that if the market – say, the Australian Stock Exchange, for example – grows by 10 per cent, then the value of the fund grows by 10 per cent. It's not rocket science, and there's a bunch of different funds, tracking different markets commonly available.

The John Lee Dumas Twist – The Explorer

This secure, no-brainer approach forms the basis of John's investment strategy, but it's not the whole cake. John explains it best himself:

"Dollar cost averaging into index funds has been a great investment for myself, with what I call the core of my money, that 80% core, so a very conservative dollar cost averaging into a broad index like the total market index and the international index. "And, with that other 20%, I do what I call the explorer, that's where I took a winger a few years back on both Amazon and Facebook, just two companies that I think are going to dominate the world, but I don't know that I just think they are, so I took a winger on that, you know, with not all of my money, but with a nice solid 20%, and they both returned well over 100% since I've invested in them and that number just keeps going up.

"It will go down when we have the next market crash, no doubt. But I think, over the next 40 years, that those will be good investments, and again, if they're not, that's why I have my core," John says.

John's strategy is certainly food for thought. As I said, it's a type of investment that's been a bit out of favour with investors. But, for you, maybe it's worth another look as part of your holistic investment strategy?

Listen to my entire conversation here.

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