

# Contents

	<b>Foreword by William J. Bernstein</b>	<b>ix</b>
	<b>Preface to the 2006 Edition</b>	<b>xiii</b>
	<b>Preface to the 1993 Edition</b>	<b>xix</b>
	<b>Introduction</b>	<b>1</b>
<b>1</b>	<b>Market Risk, Timing, and Formula Strategies</b>	<b>3</b>
	RISK AND MARKET RETURNS	3
	Market Returns over Time	3
	Distribution of Market Returns	9
	Risk and Expected Return	13
	MARKET TIMING AND FORMULA STRATEGIES	20
	Timing the Market	20
	Automatic Timing with Formula Strategies	21
	ENDNOTES	23
	2006 NOTE	24
<b>2</b>	<b>Dollar Cost Averaging Revisited</b>	<b>25</b>
	DOLLAR COST AVERAGING: AN EXAMPLE	26
	SHORT-TERM PERFORMANCE	28
	Over One-Year Periods	30
	Over Five-Year Periods	32
	LONG-TERM PROBLEMS WITH DOLLAR COST AVERAGING	34
	Growth Equalization	35
	SUMMARY	36
	ENDNOTES	37
<b>3</b>	<b>Value Averaging</b>	<b>39</b>
	VALUE AVERAGING: AN INTRODUCTION	39
	SHORT-TERM PERFORMANCE	43
	LONG-TERM PERFORMANCE AND VALUE AVERAGING	47
	Linear, or Fixed-Dollar, Strategies	47
	Adjusting Strategies for Growth	51
	SUMMARY	53
	ENDNOTES	54
	2006 NOTES	55

<b>4</b>	<b>Investment Goals with Dollar Cost Averaging</b>	<b>57</b>
	BACKGROUND	57
	Lump-Sum Investments	57
	Using the Formula	59
	Annuities: Periodic Investments	60
	Dollar Cost Averaging and Annuities	63
	READJUSTING THE INVESTMENT PLAN	63
	The Readjustment Process	64
	Flexibility	66
	Down-Shifting Investment Risk	69
	GROWTH-ADJUSTED DOLLAR COST AVERAGING	71
	Exact Formula	72
	Approximate Formula	74
	Readjusting the DCA Plan	75
	SUMMARY	80
	ENDNOTES	80
	Appendix to Chapter 4: Constructing a DCA Readjustment Spreadsheet	83
<b>5</b>	<b>Establishing the Value Path</b>	<b>87</b>
	VALUE AVERAGING VALUE PATHS	87
	The Value Path Formula	88
	Flexible Variations on the Value Path Formula	89
	Readjusting the VA Plan	92
	A Cautionary Note	93
	An Alternate Method	93
	SUMMARY	94
	ENDNOTES	95
	Appendix to Chapter 5: Constructing a VA Readjustment Spreadsheet	97
<b>6</b>	<b>Avoiding Taxes and Transaction Costs</b>	<b>101</b>
	TAX CONSIDERATIONS WITH VALUE AVERAGING	101
	The Advantage of Deferred Gains	101
	Deferring Capital Gains Taxes: An Example	102
	A Compromise: No-Sell Value Averaging	107
	REDUCING TRANSACTION COSTS	111
	Limiting Taxes	111
	Limiting Costs	112
	SUMMARY	113
	ENDNOTES	114

<b>7</b>	<b>Playing Simulation Games</b>	<b>117</b>
	WHY SIMULATIONS?	117
	WHAT AND HOW?	118
	Parameters	118
	Expected Return	119
	Expected Variability	120
	Randomness	120
	CONSTRUCTING THE SIMULATION	121
	An Example	122
	ENDNOTES	126
	Appendix to Chapter 7: Constructing a Simulation	129
	2006 NOTE	131
	ENDNOTES TO APPENDIX TO CHAPTER 7	133
	2006 NOTE	134
<b>8</b>	<b>Comparing the Strategies</b>	<b>135</b>
	FIVE-YEAR SIMULATION RESULTS	135
	Using Growth Adjustments	139
	No-Sell Variation	142
	Volatility	143
	TWENTY-YEAR SIMULATION RESULTS	145
	SUMMARY	146
	ENDNOTES	147
<b>9</b>	<b>Profiting from Overreaction</b>	<b>149</b>
	TIRING OF A RANDOM WALK	149
	Mean Reversion and Overreaction	150
	A Brief Look at the Data	151
	WHY DOES THIS MATTER?	160
	Timing	161
	ENDNOTES	164
	2006 NOTE	167
<b>10</b>	<b>Details: Getting Started</b>	<b>169</b>
	USING MUTUAL FUNDS	169
	The Fund versus Stock Choice	169
	Index Funds	171
	Information on Specific Funds	172
	WORKING OUT THE DETAILS	175
	Using a Side Fund	176
	Operating Within a Retirement Account	177
	Establishing a Value Path	178

**viii Contents**

2006 NOTE	180
Setting Up a VA Value Path: An Example	181
Other Important Considerations	184
Using Guidelines and Limits	185
NOTES FOR FINANCIAL PLANNERS	186
Advanced Methods	187
SUMMARY	189
ENDNOTES	189
2006 NOTE	191
<b>11 Examples: Strategies at Work</b>	<b>193</b>
THE GOAL AND INVESTMENT ENVIRONMENT	194
Choosing an Investment	194
Setting the Goal (Dealing with Inflation)	197
How Much Should He Invest?	199
INVESTMENT RETURN & TAXES	200
Expected Return	200
Taxes	200
IMPLEMENTING DOLLAR COST AVERAGING	202
1981: Setting Up DCA	203
1982–1983 Investment Results	205
1983: Reassessment and Readjustment	205
The 1985 Readjustment	211
And So On and So On . . .	212
Wrapping It Up: 1991 Results	214
IMPLEMENTING VALUE AVERAGING	215
Establishing the Value Path	215
1983: Readjusting the VA Plan	217
Future VA Readjustments	219
VA Investments	220
SUMMARY	225
KEY FORMULAS	226
ENDNOTES	227
<b>12 A Final Word</b>	<b>229</b>
<b>Index</b>	<b>231</b>