

regular saving

– the benefits of unit-cost averaging

In this document Skandia means Royal Skandia Life Assurance Limited and Skandia Life Ireland Limited.

The rule of thumb for investing is to buy when prices are low and sell when they are high.

If financial markets were to move in accordance to a predetermined cycle this simple strategy would provide investors with ever increasing wealth.

Unfortunately the reality is that markets, especially in the short term, are unpredictable and can move randomly in either direction. Gains made over a rising period can be lost by sudden falls, often influenced by unexpected news. Therefore trying to time your investment buying and selling decisions in the short term is a hazardous strategy which very few professional investors manage to achieve successfully.

regular savings

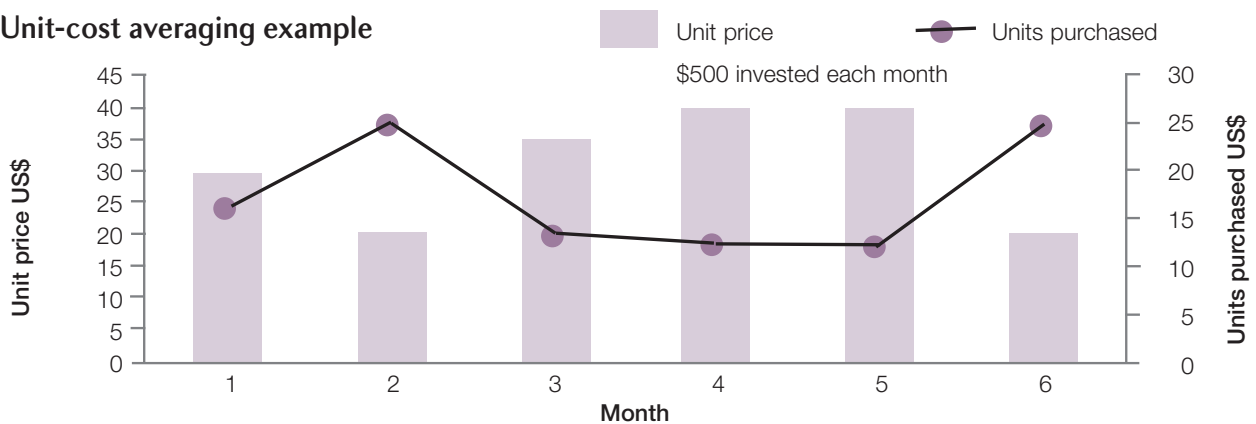
An alternative approach to investing in volatile markets is through a regular savings plan. By investing a set amount at regular intervals you can drip feed your investment into the market – a strategy known as ‘cost averaging’. Skandia offers plans that are unit-linked. This means that we allocate your premium to units in your selected funds. The funds themselves are a group of investments owned by us which are divided into units representing shares in the investments of that fund. We use those units to find the value of the benefits available to you. The price of units is calculated daily and will vary.

This means that your regular investments into a Skandia policy buy units and you can benefit from a strategy called unit-cost averaging.

how it works

Unit cost averaging removes the need to try and second guess markets to select the optimum time to invest. More units are bought when prices are low and fewer when prices are high, ensuring you purchase units at an average price throughout your savings term. The averaging effect means that the risk of paying for all the units at the highest price during the investment period is eliminated, and the size of any potential loss is reduced in comparison to an investor who has invested a single lump sum. Equally, the possibility of paying for all the units at the lowest price during the investment period is also eliminated, so the size of any potential gains will also effectively be comparatively reduced. Unit-cost averaging is most effective at smoothing the impact of fluctuations when the unit price is volatile. In the following example, we compare regular and lump-sum investing in a hypothetical investment which has a highly volatile unit price. This example reflects an investment where the unit price is lower at the end of the investment period than at the beginning of the period.

Unit-cost averaging example



This graph is purely hypothetical and for example purposes only.

The graph on the previous page shows that investing regular amounts over a period can result in the investor owning more units at the end of the period than would otherwise be the case with the lump sum investment. In this example, the same investment amount purchased a total of 106 units when invested regularly over time, versus 100 units which were purchased with the lump sum. At the end of the investment period, when prices fell, the regular saver was better off, experiencing a smaller overall loss as a direct result of holding more units.

Investment	Units Purchased	Market value at the end of 12 months	% loss on investment	Loss in US\$
Lump sum investment of US\$3000	100	US\$2000	-33%	-US\$1000
Regular investment of US\$500 amounting to US\$3000 in total	106	US\$2080	-31%	-US\$920
Difference	6	US\$80	-2%	

Skandia

Skandia offers investors an extensive choice of investments including our own range of international, managed sector and specialist funds, which are managed by some of the world's most prestigious fund management groups.

Making the right choice for your portfolio and then refining it and reshaping it over the years takes time, information and skill. Fund managers need to be selected and monitored to ensure they remain at the top of their game – and replaced when they do not.

If you would like us to take this task on for you, we offer the specialist services of 'managing the managers' using the skills we have built up in conjunction with our sister company, Skandia Investment Management. Alternatively, if you prefer to select funds and fund managers for yourself we have our Self Select option, with a comprehensive choice across asset types, geographic sectors and leading fund managers.

Past performance is not necessarily a guide to future performance, and the value of unit-linked contracts is not guaranteed as the prices of units may fall as well as rise. Where a fund holds investments in another currency, there may be additional risks because of exchange rate fluctuations.

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