



**ASSET
MANAGEMENT**

May 2026

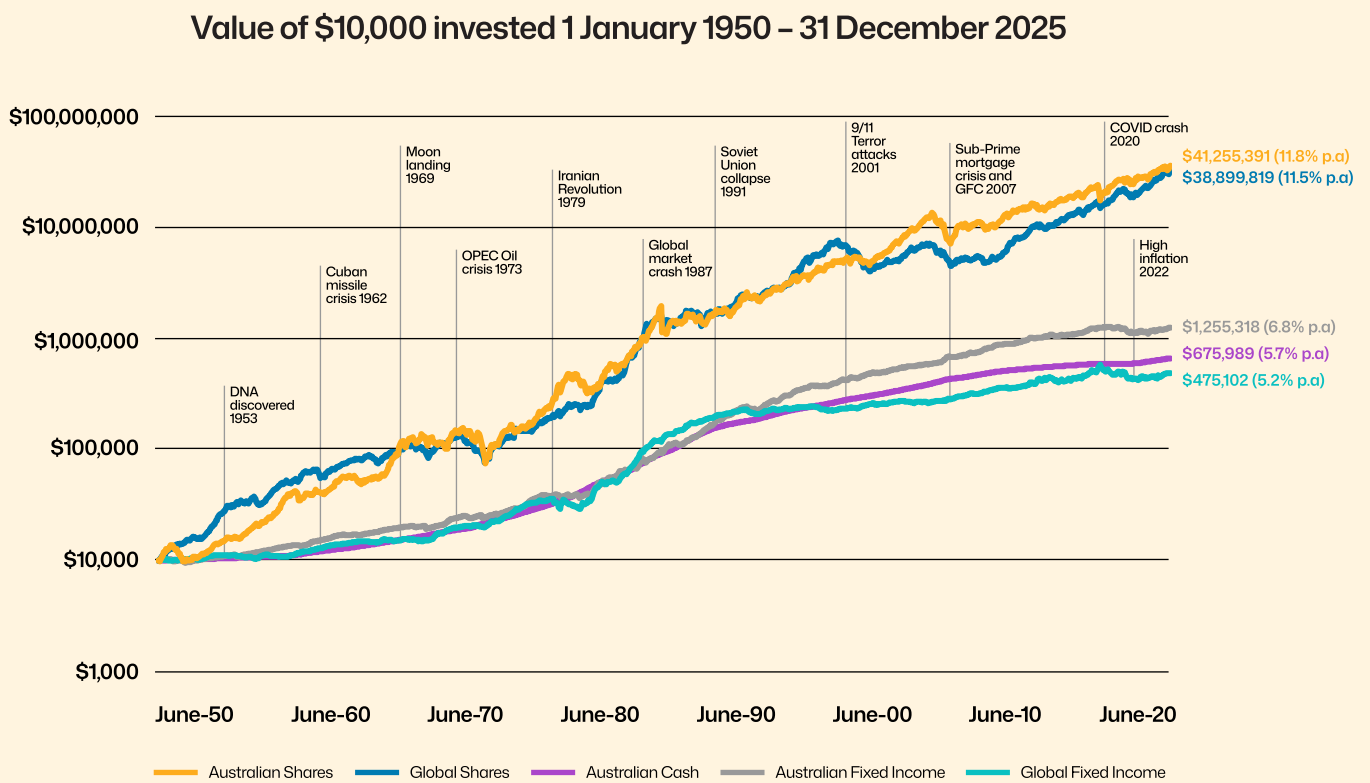
Dollar cost averaging: a behavioural response to uncertainty

Geopolitical forces are a constant feature of markets. Recent developments – shifts in US trade policy, the gradual erosion of the rules-based international order, and conflict in the Middle East – can reasonably be viewed as business as usual. Yet, the intensity of headlines and coverage, especially around the US and Israel v Iran clash, naturally triggers apprehension and uncertainty. The safety of staying in cash or leaving money on the sidelines waiting for clarity before re-entering markets may appeal to some investors, at this time. While caution is emotionally understandable, the real challenge is what comes next.

Uncertainty heightens the risk of mistimed entry

Geopolitical shocks amplify behavioural biases. Loss aversion intensifies, recency bias dominates and waiting for certainty feels prudent. Markets, however, rarely wait for certainty. Historically, equities tend to recover before geopolitical outcomes are resolved, rewarding those who stay the course (**Chart 1**).

Chart 1: Impact of world events on investment markets generally proves to be temporary



Past performance is not a reliable indicator of future performance.

Source: Calculated by MLC Asset Management Services Limited based on investment market data (including reinvestment of income) from Global Financial Data, Inc. and FactSet. Returns and values for global fixed income and global shares are not hedged.

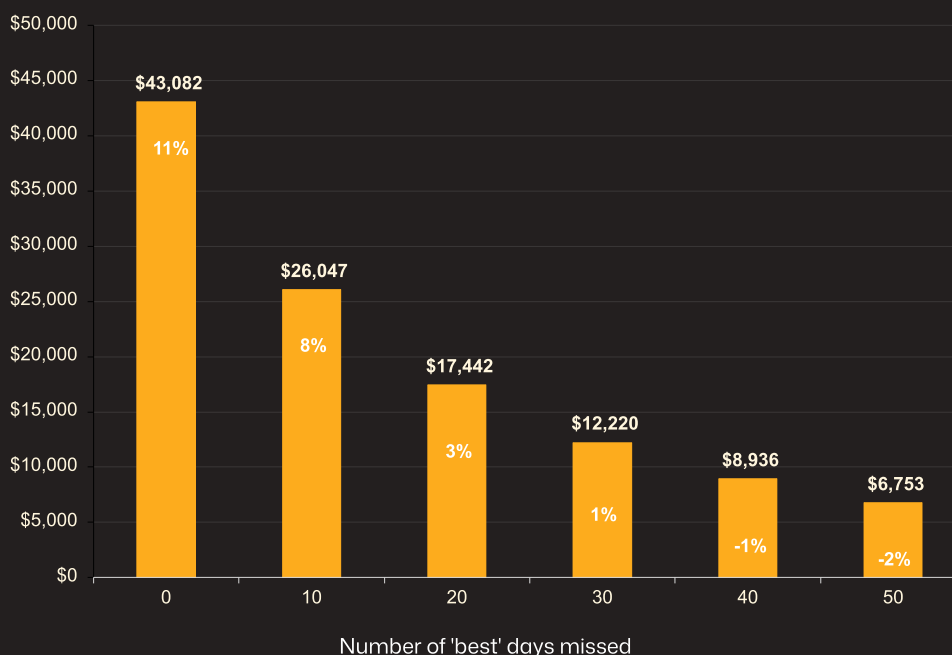
Just days out of the market can be costly

By the time risk feels comfortable, prices have often already moved higher. Investors who moved to cash during periods of stress face a second, more damaging decision: when to get back in. That decision is usually made too late; the proverbial horse has bolted. Missing just a handful of strong recovery days can materially reduce long-term returns (**Chart 2**). Geopolitical shocks don't just create volatility; they increase the likelihood of permanent opportunity loss through poor timing.

Market timing is, from our perspective, an unproductive pursuit that assumes perfect foresight. Even experienced investors struggle to do it successfully. Benjamin Graham, Warren Buffett's mentor, captured this well remarking: "In the financial markets, hindsight is forever 20/20, but foresight is legally blind."¹ The corollary of Graham's observation is that for most investors, market timing is a practical impossibility.

Chart 2: Just days out of the market can be costly

Australian shares and performance return value of \$10,000 invested for 20 years (December 2005 – December 2025)



Past performance is not a reliable indicator of future performance.

Source: Calculations by MLC Asset Management Services Limited. The 'market' is the Australian share market and is represented by the ASX All Ordinaries Total Return Index. Returns shown are an average annual return over 20 years.

¹ The Intelligent Investor: A book of Practical Counsel (1965 edition)

Cash feels comforting, but carries its own risks

Holding higher levels of cash during uncertainty provides psychological comfort. Yet prolonged time in cash introduces its own risks:

- **Opportunity cost** if markets rebound faster than expected
- **Behavioural paralysis**, difficulty reinvesting once conditions improve
- **Inflation erosion**, especially if uncertainty coincides with higher energy or commodity prices.

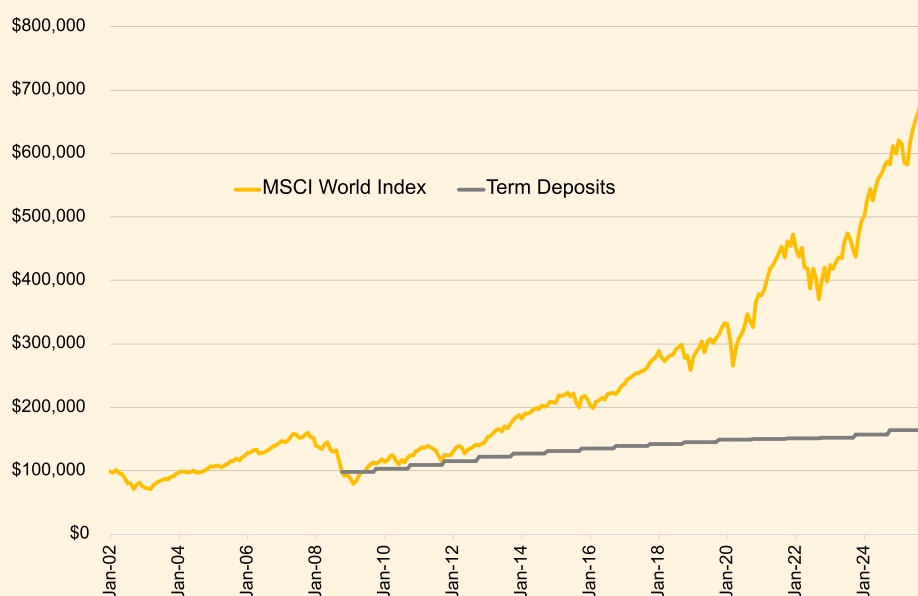
Ironically, environments that provoke investors to step away from markets are often those that reward disciplined participation over time.

For example, an investor who remained in global equities after Lehman Brothers' collapse in September 2008² and the eruption of the GFC would have seen their investment grow by more than fourfold compared to moving to term deposits (**Chart 3**).

This underscores the importance of discipline: staying invested through market declines rather than seeking temporary shelter in cash.

Chart 3: Even with the GFC impact, staying in global shares would have been far more rewarding than switching to term deposits

Value of \$100,000 invested 1 January 2002- 31 December 2025



Past performance is not a reliable indicator of future performance.

Source: MLC Asset Management Services Limited, data updated to 31 December 2025. MSCI World Index (SA). Term deposits: 1 year bank's term deposit (\$100,000) – Reserve Bank of Australia.

² SEC press release 15 September 2008

Dollar cost averaging reframes the decision

This is where dollar cost averaging earns its place not as a return-enhancement strategy, but as a behavioural circuit breaker. It shifts focus from timing outcomes to process discipline.

Instead of asking, “Is now the right time to invest?”, the investor commits to regular, incremental participation regardless of headlines or short-term market direction.

In periods of geopolitical uncertainty, this reframing is powerful and:

- Reduces the **emotional burden** of re-entry by avoiding all-or-nothing decisions
- Lowers **regret risk** by deploying capital progressively
- Keeps **capital engaged**, reducing the chance of missing early recovery stages

Dollar cost averaging requires only confidence in the long-term rationale for owning growth assets, not in the outlook, which is often unavailable during geopolitical stress.

From market timing to behaviour management

The real value of dollar cost averaging lies in aligning investor behaviour with long term objectives. Geopolitical shocks increase the temptation to wait, watch, and second-guess.

Dollar cost averaging provides a structured alternative, a way to respond to uncertainty without disengaging from markets. It allows investors to acknowledge risk without surrendering participation.

In this sense, dollar cost averaging is less about predicting the next move and more about protecting investors from their own instincts during periods of stress.



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