Does Loss Aversion Explain Dollar-Cost Averaging?
: Evidence from Five Markets in Southeast Asia

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Abstract

Many studies show that dollar-cost averaging investment strategy (DCA) is inferior to other strategies in terms of annualized excess return. Even so, DCA strategy is commonly used by both individual and institutional investors. Statman (1995) argues that dollar-cost averaging is a consistent investment strategy which is matched with investors' loss aversion behavior. Leggio and Lien (2001) show that DCA strategy is not the optimal investment strategy even for investors with loss aversion utility functions. This study adopts the approach of Leggio and Lien (2001) to evaluate DCA investment strategy relative to other common investment strategies in five equity markets in the Southeast Asia region, namely Indonesia, Malaysia, Philippines, Singapore and Thailand data from 2000 to 2012. The study finds that DCA is neither an optimal investment strategy based on risk adjusted performance nor on investor's DCA value function.