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What Does DCA Mean in Crypto?

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This article provides insight into an investing method known as Dollar-Cost Averaging (DCA). It references cryptocurrencies, timeframes, and the drawbacks of DCA. If you are unfamiliar with crypto, read our articles on [blockchain](#), [crypto](#), and [DeFi](#) before reading this article.

What is Dollar-Cost Averaging?

Dollar-Cost Averaging (DCA) is an investment strategy where an investor makes periodic purchases of a particular asset with a fixed amount of money over a long period, regardless of the asset's price action.

DCA was a term popularized by Benjamin Graham in his book, [The Intelligent Investor](#), in 1949. It is common to gain exposure to the markets if you are long-term bullish on an asset through this investing method. DCA seeks to make investing simpler while eliminating certain factors of emotion.





How Does Dollar-Cost Averaging Work?

DCA can help investors generate savings and wealth over a long period. It involves investing fixed amounts and spacing it out over regular intervals. Here is an example for easier visualization:

1. With DCA

Derek chooses to purchase \$200 worth of stock from ABC Company each month. Here is the breakdown:

Month (\$200 each)	Value of ABC Stock (\$)	Units Purchased
January	50	4
February	40	5
March	25	8
April	25	8

$$\$800 \div 25 = \$32$$

On average, he accrues 25 units worth of stock at \$32 per unit.

2. Without DCA (Lump Sum Investing)

$$\$800 \div \$50 = 16 \text{ units}$$

If Derek chooses to invest all \$800 in the first month when prices are \$50 per unit, he will only accrue 16 units worth of stock.

Thus, DCA reduces the effects of short-term volatility in the broader equity market and helps investors ease into the market over time. It also helps prevent FOMO (fear of missing out) and emotional trading. DCA is a long-term investment strategy, and its profitable effects will likely be more apparent with time.

Why Dollar-Cost Average?

1. Increased Accessibility





2. Preventing FOMO

Cryptocurrency markets are very volatile. These fluctuations often lead to FOMO (fear of missing out) and emotional trading, which can be detrimental to users' portfolios. With DCA, users can invest rationally and consistently whether the markets are bullish or bearish.

3. Reduced Risk

The risks faced due to asset volatility, especially in the crypto market, can be reduced through DCA. Hence, it is suited for investors with lower risk appetites. Averaging can flatten out any dramatic increases or drops in prices over time.

When to Dollar Cost Average?

In a [2021 Bitcoin \(BTC\) DCA article published by Nasdaq](#), different DCA timeframes were measured with purchases on BTC (12 August 2017 to 15 August 2021). The daily, weekly, and monthly investment time frames are seen below.

Asset	Amount Invested	Timeframe	Total Amount Invested	Total Accumulated	Percentage Gain
Bitcoin (BTC)	\$10	Daily	\$14,610	\$84,506	+478.41%
Bitcoin (BTC)	\$100	Weekly	\$20,900	\$115,718	+453.68%
Bitcoin (BTC)	\$1,000	Monthly	\$48,000	\$200,066	+316.81%

Source: <https://www.nasdaq.com/articles/profitting-big-from-bitcoin-dca-2021-08-15>

From the table above, we can understand how the consistency of timed purchases affects overall percentage gain. With reference to past price action, buyers can consistently profit when they DCA into BTC. BTC also has a [halvening of block rewards](#) approximately every four years, and historically, there has been a significant increase in price after a halvening. Hence, this can benefit users who DCA for the long term.

Asset	Amount Invested	Timeframe	Total Amount Invested	Total Accumulated	Percentage Gain
Ethereum	\$20	Weekly	\$29,300	\$329,958	+1,026.14%



TREEHOUSE

(ETH)

Ethereum
(ETH)

\$1,500

Monthly

\$73,500

\$827,941

+1,026.45%

Source: cryptohead.io/dca-crypto-calculator

The table above shows DCA on ETH for three different timeframes (12 August 2017 to 15 August 2021). The example above shows how DCA works over different periods.

Drawbacks

1. Low Risk, Low Rewards

The difference in returns might not be significant when comparing DCA and perfectly-timed trades in the TradFi markets. However, the returns can be very high with crypto since prices are volatile and fluctuate much more. Especially during a bull run, not investing large amounts and buying the dip on a particular asset early on might mean losing out on high returns. This equivalent amount could be challenging to regain or attain through regular DCA.

2. Accumulation of Fees

Compared to TradFi, the gas fees from DeFi transactions can be high depending on the network used and the amount of activity. For instance, in April 2022, high transaction volumes of [BAYC's](#) (Bored Ape Yacht Club) new NFT project launch, Otherside, [caused gas prices on Ethereum to spike](#) to a few thousand dollars. Constant accumulation of high gas fees could affect the profitability of DCA in crypto.

Conclusion

Cryptocurrencies are volatile and much more so than the traditional markets. The ability to time the market and buy the bottom or sell the top is an art that even the most advanced traders fail to perfect. Users who DCA might not see the same percentage gains as someone who buys a lump sum amount at the bottom, but it is, nonetheless, safer to gain long-term exposure in this way.

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