

Global CIO Viewpoint – The Intelligent Allocator

Exploring two ways to deploy capital after a liquidity event

Investment Solutions

30 September 2025

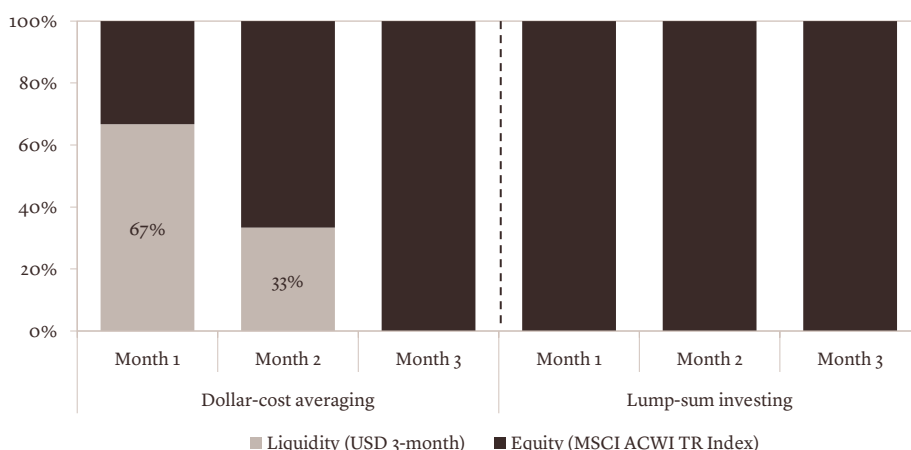
This new series of short articles aims to answer key investor questions about deploying capital into financial markets. These reflections are geared to a long-term perspective with general answers to some of investors' toughest decisions. Grounded in historical data, our analysis builds on long-term evidence. At the heart of each of these papers is a simple premise: what investment choice should I make?

At some point in life, most investors experience a 'liquidity event' - a sudden influx of cash from the sale of a company, an inheritance, or the release of pension capital. Today, with many equity indices close to record highs, it can be tempting to hope for a better market entry point. We explore the benefits of two approaches to deploying capital: patient and lump sum.

Equity markets have been navigating a volatile environment so far in 2025 as US policies rewrite the economic paradigm. The S&P 500 fell more than 12% over five days in April in the wake of 'Liberation Day' US tariff announcements, and has since gained more than 30%, after setting a succession of record highs. We still see upside for equities in the next 12 months, based on our view of a non-recessionary slowdown in the US and the capacity for corporate earnings to keep growing.

1. Two ways of deploying capital in markets

Asset allocation deployment overview – lump-sum investing, or investing over time



Sources: Bloomberg, Lombard Odier calculations

Key takeaways

- Investors have two options to deploy capital after a liquidity event: lump-sum investing (all at once) or dollar-cost averaging (a gradual investment over time), each with distinct risk-return profiles
- Our analysis shows that lump-sum investing has outperformed dollar-cost averaging in 61% of the three-month periods we analysed since 1990. This approach can help maximise long-term returns
- However, dollar-cost averaging may offer better risk mitigation through lower volatility and smaller drawdowns during market downturns, making it more suitable for expected recessionary periods or short-term risk mitigation needs
- A disciplined approach to investment remains key to building long-term wealth and overcoming inflation-driven wealth erosion.

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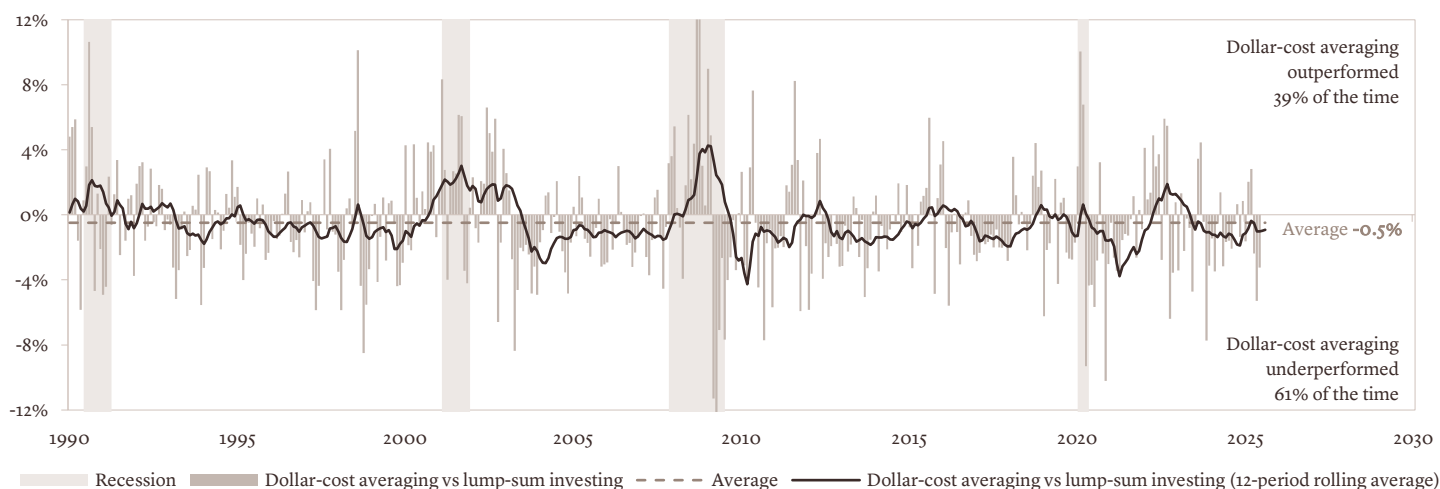
Data as of 30 September 2025 unless otherwise stated.

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2. Dollar-cost averaging has underperformed over time

Historical performance – dollar-cost averaging versus lump-sum investing



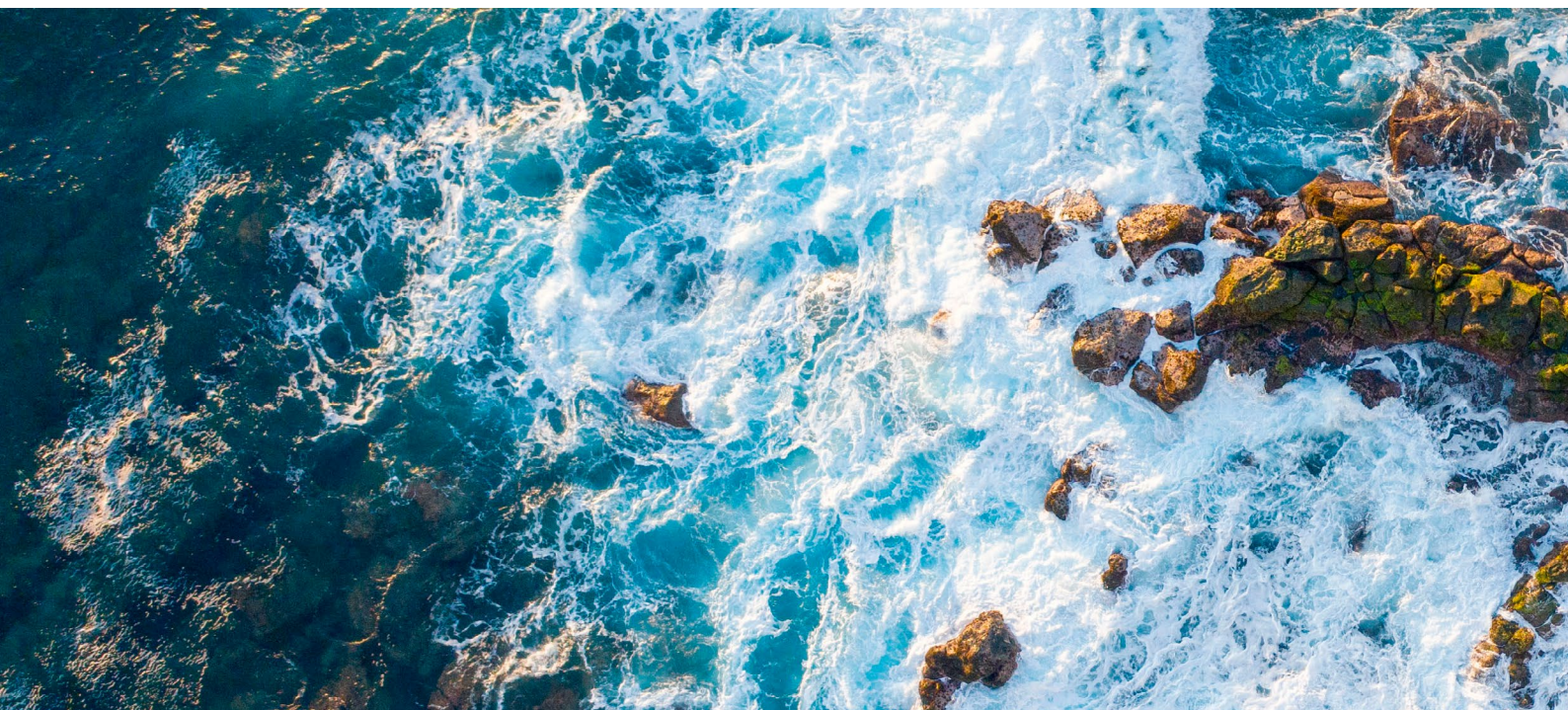
Sources: Bloomberg, Lombard Odier calculations

In this volatile environment, fears of a pullback can hold back those who are not yet invested, especially with valuations in many markets, most notably the US, looking full. Yet the shorter-term volatilities should not distract us from the objective of generating returns over the long run. So what should investors do when aiming to deploy fresh capital?

The ‘intelligent allocator’ – to mis-quote the pioneer of security analysis Benjamin Graham – understands that capital left idle is eroded by inflation. To preserve and grow wealth, cash must be put to work in the markets. The practical question is therefore not whether to invest, but how. Faced with today’s slowing global growth, policy uncertainty and geopolitical tensions, investors usually frame the choice in terms of two approaches (see chart 1, page 1).

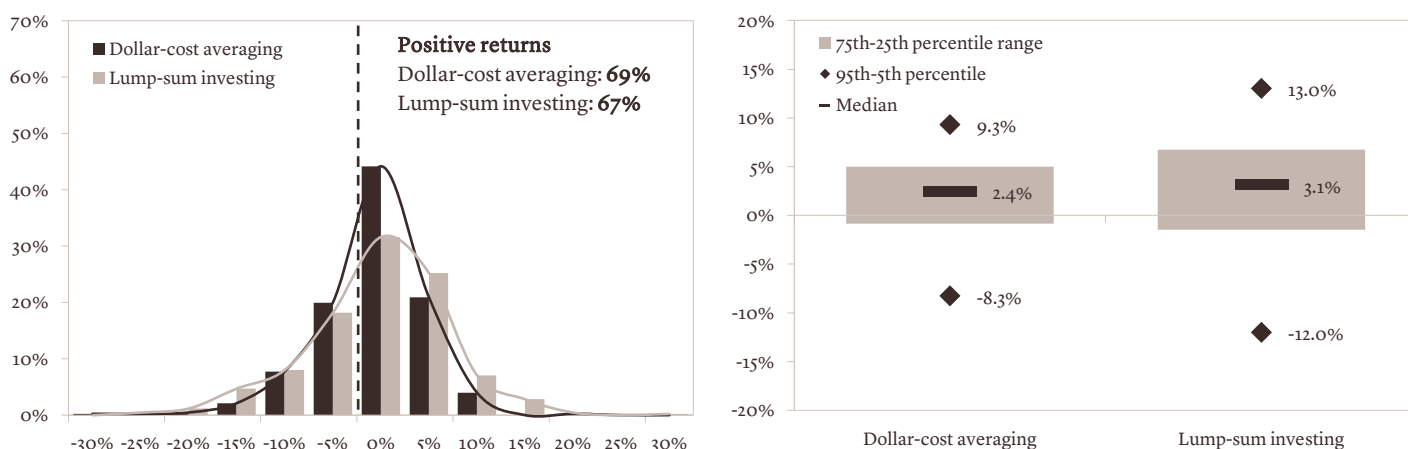
1. **Lump-sum investing** means deploying the entire capital in one transaction, resulting in full and immediate exposure to market moves.
2. **Dollar-cost averaging**, an approach pioneered by Benjamin Graham, parcels the sum into fixed portions invested at regular intervals, irrespective of market conditions.

To weigh the merits of these two approaches, we performed a simple analysis. Since January 1990, how would an investor have fared deploying capital into global equities (as measured by the MSCI All Country World Total Return Index) either as a lump sum (all at once), or over three months in equal tranches, with uninvested cash held in three-month US money market funds?



3. Dollar-cost averaging can be less volatile

Analysing historical returns and volatility of the two approaches

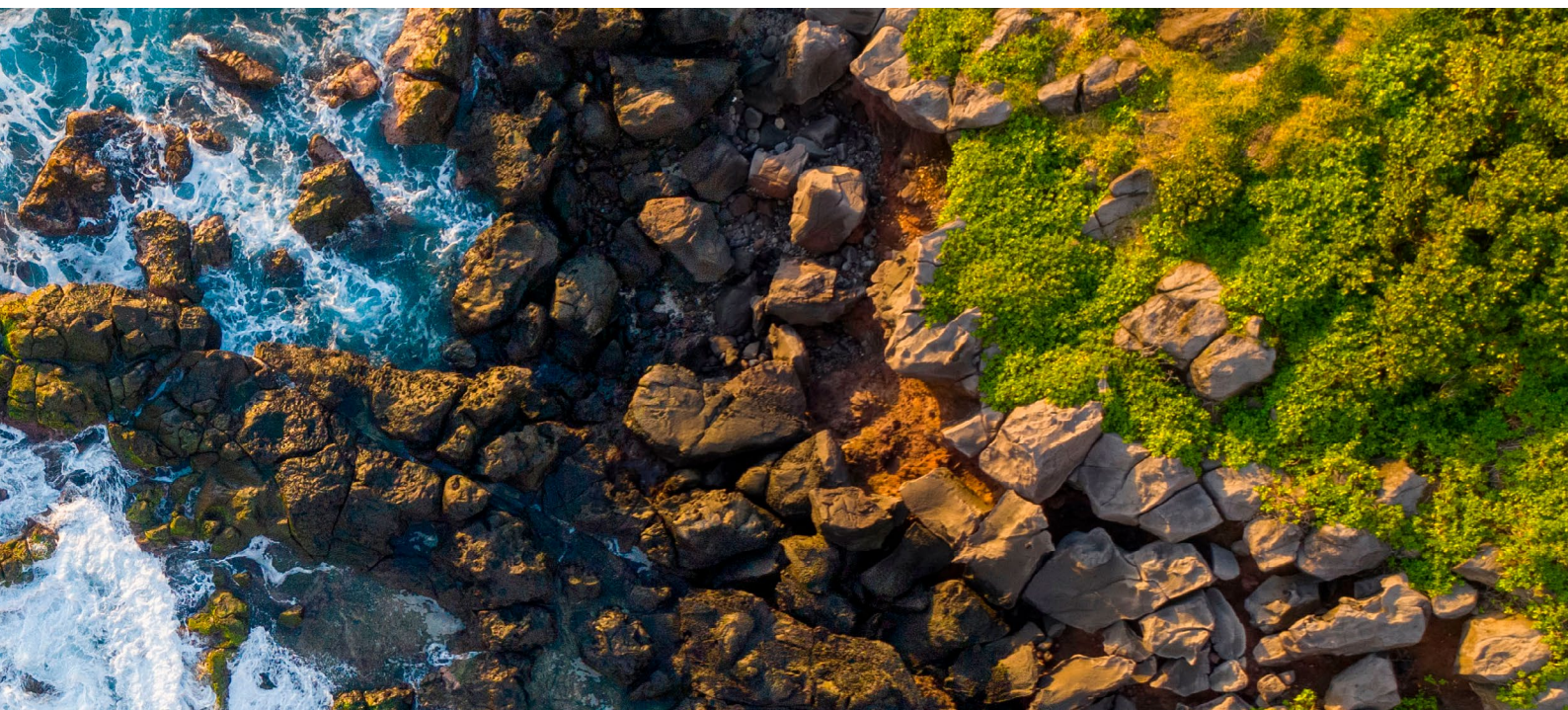


Sources: Bloomberg, Lombard Odier calculations

The results appear clear. Historically, dollar-cost averaging underperformed lump-sum investing in 61% of these three-month periods, with an average underperformance of -0.5% and a median of -0.7% (see chart 2). Since equities rise roughly two-thirds of the time from a monthly perspective, according to our analysis, it makes sense that deferring exposure often penalises returns. Unsurprisingly, moments of relative strength for the dollar-cost averaging approach cluster around recessions, when markets fall and gradual entry softens the blow.

A patient approach can mitigate risks

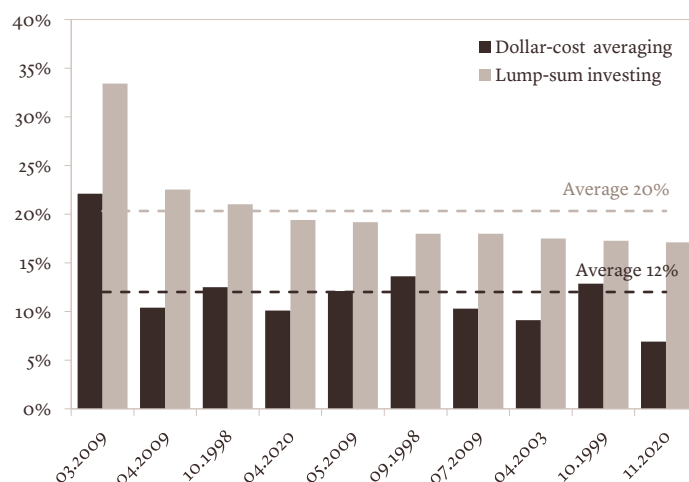
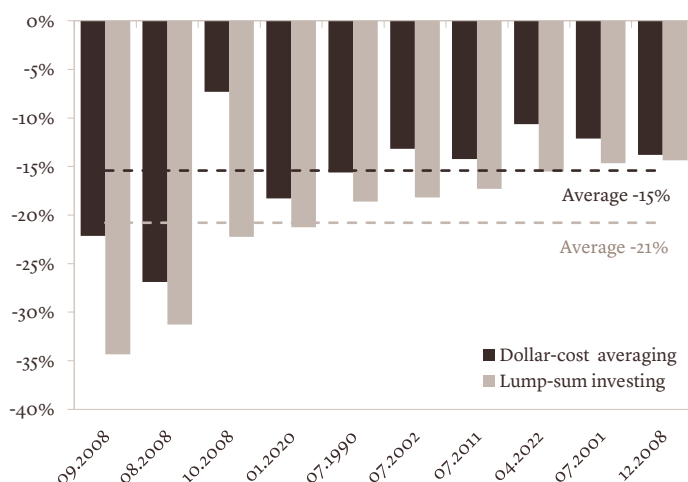
Is lump sum investing always the better strategy then? From a pure return-maximisation standpoint, historical analysis tilts in its favour. Yet dollar-cost averaging has merit in one other respect: risk mitigation. On average, its outcomes were positive 69% of the time versus 67% for lump-sum investing. Its volatility was lower (11.0% versus 15.4%), and its dispersion of returns narrower (see chart 3). In other words, drip feeding capital into the markets often delivers lower highs, but it can also deliver lower lows.





“ Discipline and time in the market
consistently deliver the foundation
of a robust, long-term investment ”

4. Dollar-cost averaging can soften drawdowns, but captures less of rallies



Sources: Bloomberg, Lombard Odier calculations

Looking at extremes reinforces the point. Across the ten worst periods since 1990, the dollar cost averaging approach lost -15% compared with -21% for lump-sum investing, with the most severe drawdown -27% versus -34% (see chart 4). Conversely, in the ten best periods, lump-sum investing outpaced dollar cost averaging by 8 percentage points on average, capturing up to +33% gains against dollar-cost averaging's +22%.

Ultimately, investing is about managing risks. Lump-sum investing has historically offered superior long-term returns for deploying an influx of capital, particularly in environments where recession risks look low. By contrast, the benefit of dollar-cost averaging lies in short-term risk control. It can be a

useful way to mitigate against the risks of a near-term economic contraction. Looking beyond this analysis, historical data reminds us that discipline and time in the market – rather than attempts at short-term market timing – consistently deliver the foundation of a robust, long-term investment approach.



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