

## Understanding Volatility: Can volatility be an investor's advantage?

Market volatility is often seen as a challenge, but for informed investors, it can also present unique opportunities. Understanding and embracing volatility is crucial for those looking to build wealth over the long term.

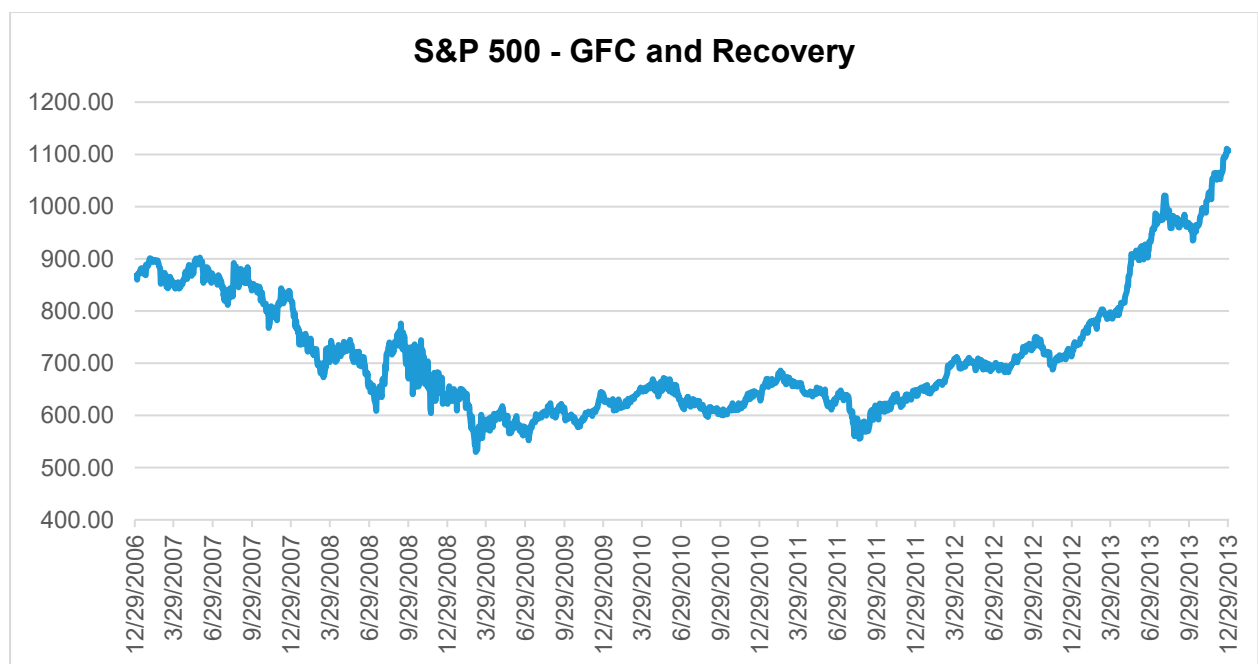
It can be useful to look to the past to understand how markets have historically responded to volatility. Over the long term, markets have shown a consistent tendency to recover from downturns, making it clear that volatility is often temporary. Here are a few notable examples:

### 1. The 2008 Global Financial Crisis

The 2008 financial crisis caused significant market upheaval, with the S&P 500 losing nearly 57% of its value from its peak in 2007 to its trough in March 2009. However, following this period of extreme volatility, the market embarked on one of the longest bull runs in history, recovering losses and reaching new highs by 2013. Investors who remained calm and continued to invest during this downturn ultimately benefited from substantial gains over time.

Chart 1 below highlights the steep decline during the financial crisis and the subsequent recovery.

Chart 1



Source: AB 2025

### 2. The Dot-Com Bubble

During the late 1990s, technology stocks experienced a meteoric rise, leading to the infamous dot-com bubble. When the bubble burst in 2000, many tech companies' stock prices plummeted, causing substantial volatility within the sector. However, by 2009, technology stocks had not only recovered but were also thriving, marking the sector as one of the strongest performers in the subsequent bull market. For example, investors who remained invested in leading tech companies, such as Amazon or Apple, during the dot-com crash benefitted from exponential growth in the following years.

### 3. The COVID-19 Pandemic

In early 2020, the COVID-19 pandemic caused widespread panic and market volatility, leading to a rapid decline in equity prices. However, markets rebounded quickly, fueled by government stimulus measures and the swift adaptation of businesses to the new environment. The S&P 500 regained its losses and surged to new highs by the end of 2020, emphasising the resilience of markets even amid unprecedented global challenges.

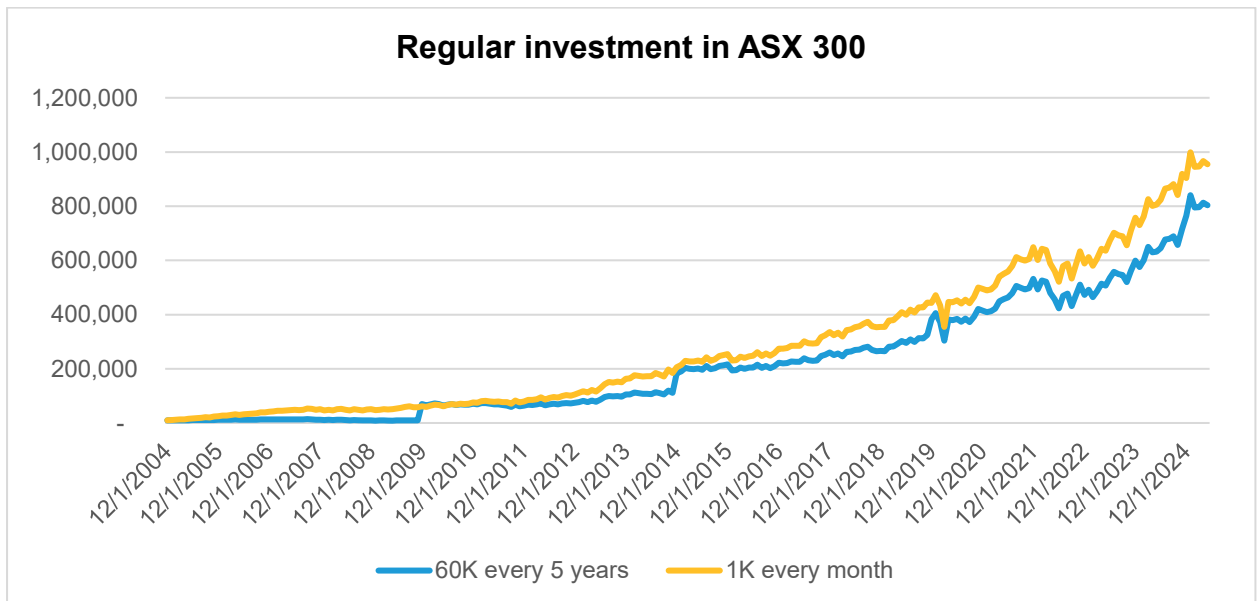
If you think about volatility as an opportunity, here are some strategies to consider:

#### 1. Dollar-cost averaging

Dollar-cost averaging involves consistently investing a fixed amount of money over regular intervals, regardless of market conditions. This strategy allows investors to buy more shares when prices are low and fewer shares when prices are high, effectively reducing the average cost per share over time. Example: An investor committing \$500 monthly to a broad index fund can benefit during market dips, accumulating more shares when prices are lower, thus enhancing long-term gains.

As Chart 2 shows, an investor committing \$1,000 monthly to a broad index fund (in this case investing in the ASX300) can benefit during market dips, accumulating more shares when prices are lower, thus enhancing long-term gains, compared to an investor investing the same amount as a lump sum once every five years.

Chart 2



Source: AB 2025

#### 2. Take advantage of market corrections

Market corrections, defined as a decline of 10% or more in the market, provide opportunities to purchase quality assets at discounted prices. Savvy investors and advisers can identify undervalued stocks during these corrections, allowing for significant growth potential when the market rebounds. For example, during the market correction in March 2020, many investors focused on high-quality companies with robust fundamentals. As the market recovered, those investors saw substantial returns.

#### 3. Maintaining a long-term perspective

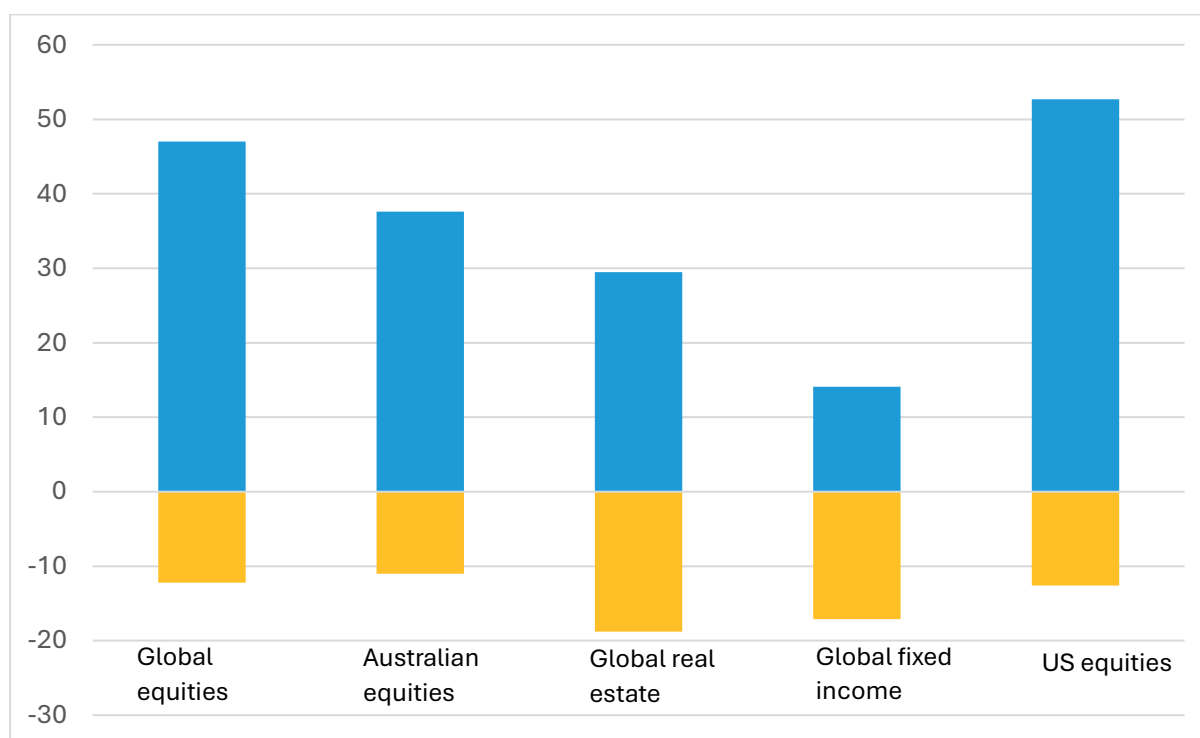
Holding investments for the long term is paramount in navigating volatility. By focusing on long-term goals and ignoring short-term fluctuations, investors can ride out storms and benefit from the overall upward trajectory of the market. Historical data supports the notion that, over extended periods, the stock market tends to rise despite short-term volatility.

#### 4. Diversification

Diversifying a portfolio across various asset classes, sectors, and geographical regions can reduce risk during volatile market conditions. A well-rounded portfolio is less susceptible to the impact of volatility in any single asset class or sector, allowing for more balanced performance. For example, an investor with a mix of equities, bonds, and alternative investments can achieve a smoother ride through market fluctuations, using fixed income and non-correlated assets to buffer against downturns in equities.

As Chart 3 shows, the variation in returns across asset classes can be extreme. By investing in a bend of asset classes returns may be less likely to suffer wild swings either way.

**Chart 3: Distribution of returns across asset classes**



**Past performance does not guarantee future results.**

Source: AB 2025. Returns of MSCI World Index (global equities), S&P/ASX 300 (Australian shares), FTSE EPRA NAREIT Global (global real estate), Bloomberg/Global Aggregate (global fixed income), S&P500 Index (US equities).

Highest and lowest annual returns for each asset class during the period 31/12/2015 to 31/12/2024.

**At AB, we are committed to handling risk. Our professional investment managers look at a range of risk metrics on a daily basis – assessing the market and individual companies to ensure a balanced approach to risk in our portfolios.**

**Ask your adviser for more information on AB's range of strategies that are designed to deliver strong long-term returns by reducing the impact of market volatility.**

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