

## Understanding Volatility: 10 Tips on volatility

Investing in financial markets inevitably includes experiencing periods of volatility. Understanding how to navigate these fluctuations is crucial for long-term success. Here are ten important insights to help investors manage their portfolios during turbulent times.

### 1. Embrace volatility as part of investing

Volatility is a normal aspect of long-term investing. Stock markets often react to changes in the economic, political, and corporate landscape, causing uncertainties that can lead to price swings. It's essential for investors to anticipate these fluctuations and maintain a calm perspective. When you can accept that volatility is part of the investment journey, you are less likely to react emotionally. This mindset allows you to focus on your long-term objectives and take advantage of price declines rather than selling at a loss.

### 2. Equity risk can yield rewards in the long run

Investing in equities involves risks, but historically, equity investors have been rewarded with higher average returns compared to those in safer asset classes, like government bonds. It's important to recognise that risk is not synonymous with volatility. Stock prices can diverge significantly from their intrinsic values, creating opportunities for astute investors willing to endure short-term price movements. Over time, corporate earnings typically drive stock prices, making equities a valuable component of long-term wealth accumulation.

### 3. Market corrections present investment opportunities

Market corrections—defined as declines of 10% or more—are a regular feature of bullish markets. Such periods can be favourable for investors, as they often lead to more attractive valuations and the potential for above-average returns when the market rebounds. Historically, many market downturns have been followed by strong recoveries, indicating the importance of viewing corrections as opportunities rather than threats.

### 4. Maintain a consistent investment approach

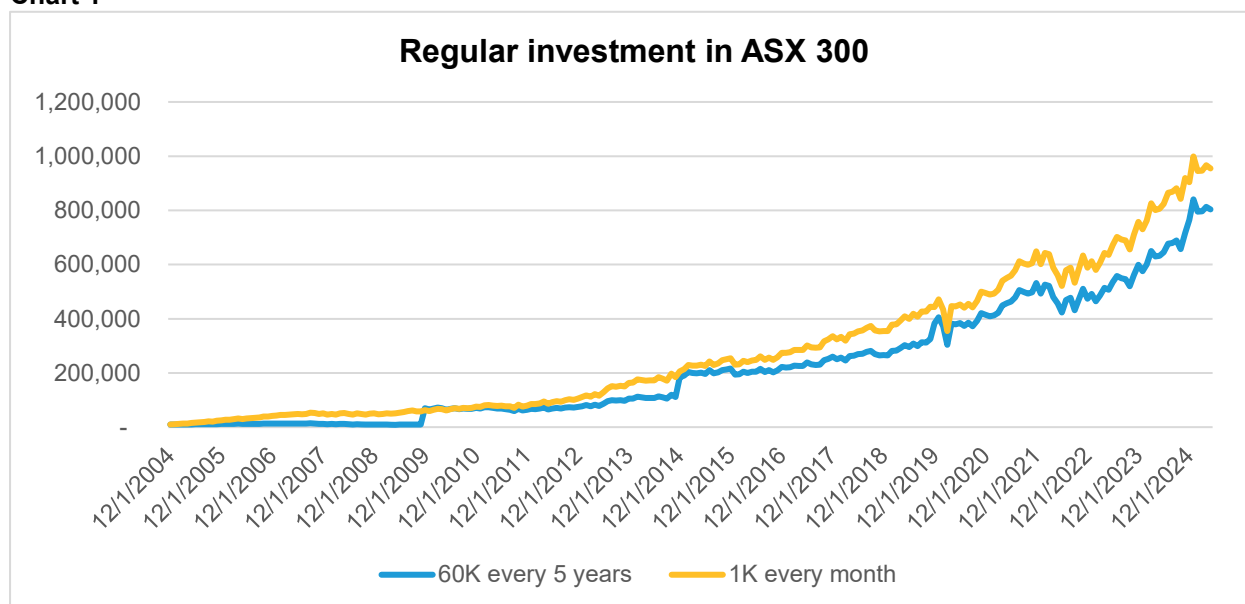
Investors who stay the course generally benefit from the long-term upward trend of stock markets. Attempting to time the market can result in missed opportunities, especially significant recovery days. Studies show that missing just a few of the best-performing days can profoundly impact your overall returns. Therefore, it's wise to adopt a consistent investment strategy rather than trying to time your entries and exits.

### 5. The advantages of regular investment

One effective strategy for managing the impact of volatility is dollar-cost averaging, which involves investing a fixed amount of money at regular intervals, regardless of market conditions. This approach helps mitigate the impact of price fluctuations by lowering the average cost of investments over time. Investing regularly—even during downturns—can allow investors to capitalise on lower asset prices, positioning themselves for future gains.

As Chart 1 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 1**



Source: AB 2025

## 6. Diversification: smoothing out returns

A diversified investment portfolio can help reduce risks and smooth out returns during volatile periods. Effective asset allocation should balance exposure to different sectors, geographies, and asset classes. By investing in a blend of growth assets (like stocks and real estate) and defensive assets (such as bonds and cash), investors can better manage concentration risks and improve overall portfolio stability.

## 7. Focus on quality, dividend-paying stocks for income

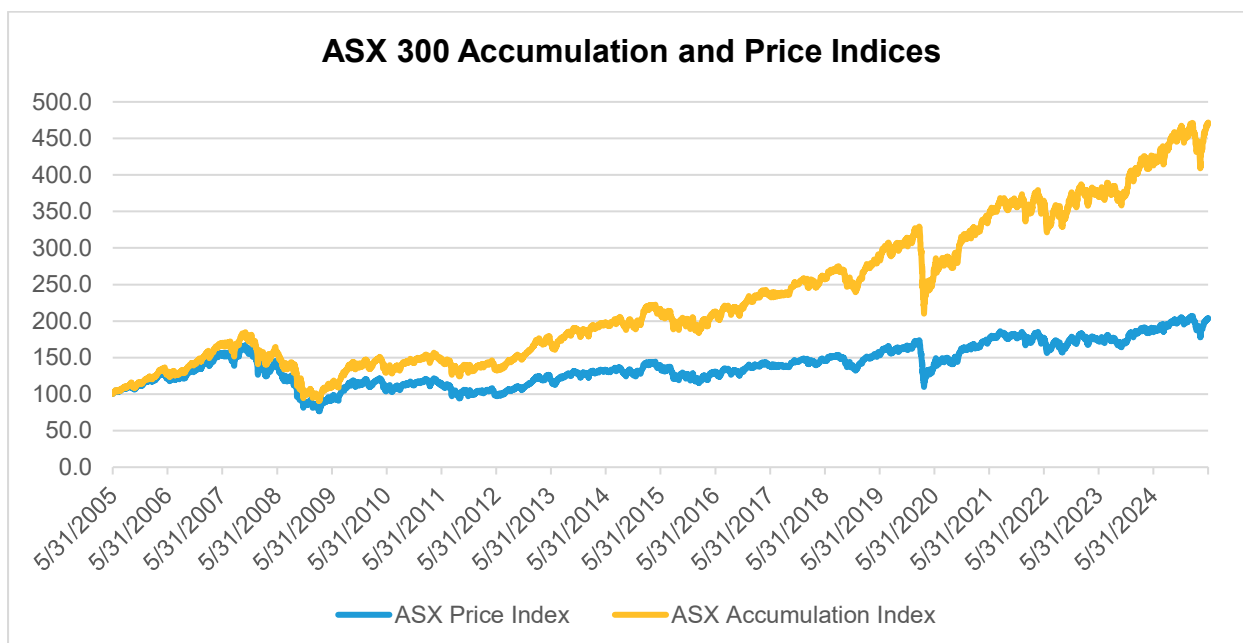
Investing in high-quality companies that offer reliable dividends can provide stability during market volatility. These companies are typically established market leaders with strong cash flows, making them more resilient in challenging economic conditions. The consistency of dividend payments can also support share price stability, giving investors the confidence to navigate market fluctuations.

## 8. Reinvent income to enhance total returns

Reinvesting dividends can significantly boost total returns over time through the power of compound growth. Maintaining a long-term investment perspective is essential, as disciplined reinvestment can help generate exponential growth. Investors should leverage regular income streams to increase their overall portfolio value and counteract the effects of inflation.

As Chart 2 shows by re-investing dividends in the ASX 300 the effect of compounding and regular investing can increase your returns significantly over the long term.

**Chart 2**



Source: AB 2025 (rebased to 100 on 31 May 2005)

## 9. Avoid being influenced by market sentiment

Market sentiment can dramatically shift based on trends and narratives. Often, industries or investment themes cycle in popularity, leading to heightened volatility. For instance, technology stocks can bloom during market exuberance yet face corrections during downturns. Investors should take a discerning approach, focusing on their objectives rather than following the crowd.

## 10. Active investment can provide strategic advantages

In volatile periods, actively managed investment strategies can offer distinct benefits. Active managers can adjust portfolios based on market conditions, responding promptly to shifting trends and opportunities. Being strategic and flexible can help investors navigate uncertainty and capitalise on emerging trends.

Understanding and preparing for market volatility is crucial for achieving investment success. By embracing long-term strategies, maintaining a diversified portfolio, focusing on quality investments, and avoiding knee-jerk reactions to market sentiment, investors can effectively steer their portfolios through challenging times. These principles can help investors not only weather volatility but also identify opportunities for growth and long-term

**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.**

This document is released by AllianceBernstein Australia Limited ("ABAL") ABN 53 095 022 718, AFSL 230 698. This document is provided solely for informational purposes and is not an offer to buy or sell securities. The information, forecasts and opinions set out in this document have not been prepared for any recipient's specific investment objectives, financial situation or particular needs. Neither this document nor the information contained in it are intended to take the place of professional advice. You should not take action on specific issues based on the information contained in the attached without first obtaining professional advice. The views expressed herein do not constitute research, investment advice or trade recommendations and do not necessarily represent the views of all AB portfolio-management teams.