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INVESTING

Investing During Volatile Markets

Understanding the stock market's unpredictable tendencies is a challenge during the best of times. But what happens when price swings grow abnormally large? It is essential for investors to understand how market volatility affects them and their investments.

Volatility: Definition and Causes

It is in the stock market's nature to fluctuate sharply during the short term, making volatility inevitable. The market's volatility is measured by its standard deviation, how spread apart the data is from the expectation. Periods when prices fall or rise quickly cause spikes in volatility that take time to revert back to the norm. While driven by a number of factors, uncertainty is a primary culprit.

But what drives uncertainty? Everything from emotional responses from investors to differing opinions from experts. Investors tend to overreact to specific events in the market, causing a contagion-like episode that spreads from one institution to another. The 24-hour news cycle and differing opinions from market experts also complicates matters. Emotional reactions along with oversaturated financial information drive volatility.

Investment Strategies for Volatile Markets

Investors must understand their personal risk tolerance levels to succeed during volatile times. Remaining disciplined to proven strategies can be effective, but regular audits of your portfolio and adjusting your risk tolerance levels accordingly is also prudent. The investor must determine whether a conservative or aggressive investing strategy is right

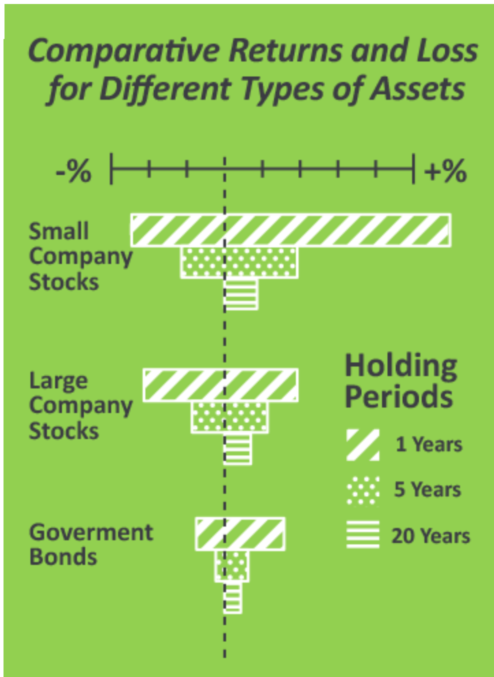

Chart suggests generic volatility behavior and does not represent specific market data. Past market performance does not guarantee future results.

for them. A conservative approach might call for minor portfolio adjustments while still focusing on the long term. On the other hand, an aggressive risk-taking strategy may focus on capitalizing on the highs and lows of volatile markets. Either way, understanding personal risk tolerance and is crucial.

Investors who want to take advantage of volatile times may consider the following strategies:

- Dollar-cost averaging involves investing small incremental amounts instead of committing all of the capital at once. This reduces investor risk because total capital is never fully at risk.
- Adjusting stops and targets to reflect a stock's price range can also be an effective strategy. Consider using the Average True Range (ATR) to monitor a stock's average price over time when adjusting your stops and targets. ATR tries to show the commitment of traders. Large or increasing ranges can indicate that traders may continue to bid up or sell down a stock. A decreasing range can suggest waning interest.
- Portfolio rebalancing is the strategy of buying and selling bits of a portfolio to return each asset class to its original proportion. This method also works if the investor's risk tolerance level has changed and the portfolio needs to adjust similarly.

In Conclusion

It is the stock market's nature to be volatile over the short term. Staying informed, understanding your risk tolerance, and sticking to your long-term goals and planning is usually in your best interest. The investing experts at Prudential can help guide you through volatile times.

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