## Prudential <br> PATHWAYS

A Financial Wellness Series

## DON'T TRY TO PREDICT THE STOCK MARKET



The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102 1003116-00004-00

## WHAT DOES VOLATILITY MEAN TO YOU?

## stock decline uncertainty anxiety

## recession

 dramaticrisk loss
crash inflation

## AGENDA

- Overview of the current market
- Market volatility basics
- Tips for investing in volatile markets



## CHALLENGE: MARKET UNCERTAINTY



Source: TradingView.

## FACTORS AND EVENTS THAT INFLUENCE MARKET VOLATILITY

Late 1980s

- Black Mondaymarkets crash
- Iran-Contra scandalhigh unemployment


## Early 2000s

- Collapse of the dot.com bubble
- September 11th attacks
- Corporate accounting scandals
- Global financial crisis


1990s

- Industrial production and manufacturing trade sales decreased
- Savings and loan scandals

Current

- Historically low oil prices
- Greek debt crisis
- China currency devaluation
- Fed rate hikes begin
- Brexit
- Inflation
- COVID-19 pandemic


## TIP 1: SET GOALS AND REVIEW THEM PERIODICALLY

- Goals should be realistic and long-term
- Goals should be specific
- Goals can change over time
- Housing
- College education
- Car
- Vacation home/travel

- Retirement


## TIP 2: AVOID EMOTIONAL INVESTING

## How some investors may feel during a typical market cycle

"This is great. I should invest more"

"It's Ok. I'm a long-term investor"
"Maybe this time is different"
Time to rebalance
Consider buying when everyone else is cautious.
"I'm not getting fooled again"

Timeline

## EMOTIONAL INVESTING CAN LEAD TO UNDERPERFORMANCE

## Average annual returns (January 1999 - December 2018)



## Emotional investing can lead to long-term underperformance

Source: "Quantitative Analysis of Investor Behavior, 2018" DALBAR, Inc. DALBAR is an independent, Boston-based financial research firm which is not affiliated with Prudential Financial, Inc. and its affiliates. Average stock fund investor and average bond fund investor performance results are calculated using data supplied by the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions, and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses, and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for each period. The S\&P 500 Index is an unmanaged, weighted index of 500 U.S. stocks, providing a broad indicator of price movement. The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. dollar-denominated, investment-grade, fixed rate, taxable bond market of Securities and Exchange Commission-registered securities.

## TIP 3: INVEST FOR THE LONG TERM

## Dow Jones declines (1900-2019)



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## BULL MARKETS ARE STRONGER THAN BEAR MARKETS

## Bull and bear markets since 1946



Bull markets, on average, have been $14 x$ stronger in magnitude and lasted $8 x$ longer than bear markets
Source: Morningstar Direct as of 12/31/2019. Returns based on the S\&P 500 Index. This chart shows the historical performance of bull and bear markets and excludes performance of periods between those markets.

## TIP 4: INVEST REGULARLY

- Investing regularly can take the emotion out of investing.
- This is known as dollar-cost averaging
- Does not guarantee profit or protect against loss, but you will buy more shares when the market is down.

There is no guarantee that dollar cost averaging will ensure a profit or protect against loss in declining markets. Since such a strategy includes continuous investments, you should consider your financial ability to continue purchases through periods of low price levels.

## KEEP INVESTING THROUGH ALL MARKET CYCLES

## Annual Average Return of the S\&P 500 Index (1926-2019)



Data from 1926-2019. Gray area represents two percentage points above and below the S\&P 500 Index's average return of $12.09 \%$ over this period. For illustration purposes only. Indexes are not available for direct investment. Past performance is not indicative of future performance.
Image source: McLean Asset Management Corporation (MAMC), https://www.mcleanam.com/are-stocks-safer-in-the-long-term/, Accessed March 2020.

## MISSING THE BEST DAYS CAN BE COSTLY

## \$10,000 invested in the S\&P 500 (January 1999 - December 2019)

Stayed Fully Invested
\$32,421
6.06\%


Missing just 10 of the best market days reduced the ending value by 53\%
As of $12 / 31 / 2019$. Source: Morningstar and PGIM Investments LLC, S\&P 500 TR USD Index. This example is for illustrative purposes only and is not indicative of the performance of any investment. It does not reflect the impact of taxes, management fees, or sales charges. The S\&P 500 is a weighted, unmanaged index composed of 500 stocks believed to be a broad indicator of stock price movements. Investors cannot buy or invest directly in market indexes or averages. Past performance is no guarantee of future results.

## STAY THE COURSE



Stock market returns have historically rebounded substantially in the following year after a market decline.

[^1]
## TIP 5: DIVERSIFY—DON’T PUT ALL YOUR EGGS IN ONE BASKET

- Quality investments
- Selected to meet your risk tolerance, time horizon, and investment goals
- Things to consider:
- Asset allocation
> Diversify your portfolio using different asset classes like stocks, bonds, and cash
- Diversification is always key
$>$ Diversify your portfolio by investing in different categories within each asset class

Diversification and asset allocation do not assure a profit or protect against a loss in declining markets.

## WHY DIVERSIFICATION MATTERS

## Annual returns for major asset classes



Since 2008, the average return difference between the best and worst asset class was $\mathbf{2 8 \%}$
In the illustration above, the top row represents the best-performing sector for each respective year. Each subsequent row represents the next best-performing sector, ultimately reaching the worst-performing sector in the bottom row. Source: Lipper Inc., Prudential Financial, Bloomberg, 01/2020. *Excludes Emerging Market stocks. Diversification may also reduce risk and enhance returns. Diversification does not assure a profit or protect against loss in declining markets.

## DON'T FORGET ABOUT FIXED INCOME DIVERSIFICATION

## Annual returns for major fixed income sectors



Since 2008, the average return difference between the best and worst fixed income sectors was $\mathbf{2 1 \%}$

## ASSET ALLOCATION

| Asset mix (\%) |  | If the total return on equities is |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | $12 \%$ | $5 \%$ | $-5 \%$ | $-12 \%$ |
| Equities | Bonds |  | The weighted average return on the portfolio is: |  |  |
| 100 | 0 | $+12.0 \%$ | $+5.0 \%$ | $-5.0 \%$ | $-12.0 \%$ |
| 90 | 10 | $+11.4 \%$ | $+5.1 \%$ | $-3.9 \%$ | $-10.2 \%$ |
| 80 | 20 | $+10.8 \%$ | $+5.2 \%$ | $-2.8 \%$ | $-8.4 \%$ |
| 70 | 30 | $+10.2 \%$ | $+5.3 \%$ | $-1.7 \%$ | $-6.6 \%$ |
| 60 | 40 | $+9.6 \%$ | $+5.4 \%$ | $-0.6 \%$ | $-4.8 \%$ |
| 50 | 50 | $+9.0 \%$ | $+5.5 \%$ | $+0.5 \%$ | $-3.0 \%$ |
| 40 | 60 | $+8.4 \%$ | $+5.6 \%$ | $+1.6 \%$ | $-1.2 \%$ |
| 30 | 70 | $+7.8 \%$ | $+5.7 \%$ | $+2.7 \%$ | $+0.6 \%$ |
| 20 | 80 | $+7.2 \%$ | $+5.8 \%$ | $+3.8 \%$ | $+2.4 \%$ |
| 10 | 90 | $+6.6 \%$ | $+5.9 \%$ | $+4.9 \%$ | $+4.2 \%$ |
| 0 | 100 | $+6.0 \%$ | $+6.0 \%$ | $+6.0 \%$ | $+6.0 \%$ |

## Bonds return 6\%

Source: PGIM Investments. This illustration is for informational purposes only. It is not intended to represent any specific investment, and is not indicative of past or future performance. Asset allocation does not assure a profit or protect against a loss in declining markets. Allocations subject to change.

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## TIP 6: REBALANCE YOUR PORTFOLIO

65\% stock/35\% bond portfolio over time without rebalancing


Make sure your portfolio stays consistent with your goals and risk tolerance over time

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## REALIGN YOUR INVESTMENT MIX TO FIT YOU RISK TOLERANCE

## Typically, when the stock market is down, the bond market is up

Stocks
-13.2\%
5.5\%

Bonds

In the past 93 years, the
stock market was down 25
times. During those years,
bonds returned
5.5\%


Past performance is no guarantee of future results. Source: Calculated by PGIM Investments using data from Morningstar Workstation. Time period: 12/31/1926-12/31/2018. Stocks are represented by the Ibbotson SBBI US Large Stock TR USD Index, which tracks the performance of S\&P 500 Index, an unmanaged, weighted index of 500 U.S. stocks, providing a broad indicator of price movement. Bonds are represented by the IA SBBI US IT Govt TR USD Index, an unweighted index that measures the performance of five-year maturity U.S. Treasury bonds. An investment cannot be made directly in an index.

## IMPACT OF ADDING FIXED INCOME TO YOUR PORTFOLIO



Past performance is no guarantee of future results. Asset allocation and diversification do not assure a profit or protect against loss in declining markets.
Source: Calculated by PGIM Investments LLC using data from Morningstar Workstation. Time period: 12/31/1999-12/31/2019. Stocks are represented by the S\&P 500 Index. Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, an unmanaged index that covers the U.S. dollar-denominated, investment-grade, fixed rate, taxable bond market of Securities and Exchange Commission-registered securities. This chart does not reflect the performance of any specific investment and does not factor in fees or expenses. All indexes are unmanaged. An investment cannot be made directly in an index. Sharpe Ratio is a risk-adjusted measure using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe Ratio, the better the historical risk-adjusted performance. 18/31/2000 (peak) to 9/30/2002 (trough)
210/31/2007 (peak) to 2/28/2009 (trough)

## MAINTAIN PORTFOLIO BALANCE WITH FIXED INCOME



|  | All Equity | $60 / 40$ | $60 / 40$ vs. <br> All Equity |
| :--- | :---: | :---: | :---: |
| Risk-Adjusted <br> Returns <br> (Sharpe Ratio) | 0.29 | 0.51 | $\mathbf{+ 0 . 2 2}$ |
| Dot-Com <br> Bubble $-42.61 \%$ $-17.64 \%$ | $\mathbf{+ 2 4 . 9 7 \%}$ |  |  |
| Great <br> Recession |  |  |  |
|  | $-54.32 \%$ | $-33.54 \%$ | $\mathbf{+ 2 0 . 7 8 \%}$ |
| Ending Value | $\$ 32,421$ | $\$ 32,834$ | $\mathbf{+ \$ 4 1 3}$ |

Past performance is no guarantee of future results. Asset allocation and diversification do not assure a profit or protect against loss in declining markets.
Source: Calculated by PGIM Investments LLC using data from Morningstar Workstation. Time period: 12/31/1999-12/31/2019. Stocks are represented by the S\&P 500 Index. Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, an unmanaged index that covers the U.S. dollar-denominated, investment-grade, fixed rate, taxable bond market of Securities and Exchange Commission-registered securities. This chart does not reflect the performance of any specific investment and does not factor in fees or expenses. All indexes are unmanaged. An investment cannot be made directly in an index. Sharpe Ratio is a risk-adjusted measure using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe Ratio, the better the historical risk-adjusted performance. 18/31/2000 (peak) to 9/30/2002 (trough)
210/31/2007 (peak) to 2/28/2009 (trough)

## KEY TAKEAWAYS

- Set and revisit goals
- Don't let your emotions get the best of you
- Focus on the long term
- Invest regularly (regardless of market conditions)
- Diversify (don't put your eggs in one basket)
- Rebalance your portfolio



## QUESTIONS?



## IMPORTANT INFORMATION

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[^0]:    Source: Bloomberg as of $12 / 31 / 19$. The Dow Jones Industrial Average is an unmanaged, price-weighted average of 30 actively traded industrial and service-oriented blue chip stocks.

[^1]:    Source: As of 12/31/2019. Calculated by PGIM Investments using data presented in Morningstar software products. All rights reserved. Used with permission. Based on cumulative price returns for the S\&P 500. Past performance is no guarantee of future results.

[^2]:    Morningstar, as of $12 / 31 / 2019$. Stocks are represented by the S\&P 500 Index, an unmanaged, weighted index of 500 U.S. stocks, providing a broad indicator of price movement. Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, an unmanaged index that covers the U.S. dollar-denominated, investment-grade, fixed rate, taxable bond market of Securities and Exchange Commission-registered securities. An investment cannot be made directly into an index

