INVESTMENT STRATEGIES AND PORTFOLIO DIVERSIFICATION IN NIGERIA'S VOLATILE MARKET

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Keywords

Diversification, Investment Strategies, Investors, Portfolio, Volatile market

Abstract

Research problem
Nigeria market volatility has been exacerbated by several factors which deepened uncertainties in investment portfolios, and thus necessitated this study's investigation of investment strategies and portfolio diversification in Nigeria's volatile market.
Method/Theory
The study adopts the qualitative research approach which relied mainly on secondary data. Collected data were analyzed using qualitative desk analysis method, while the study was hinged on Modern Portfolio Theory.
Results
The study found that Nigeria's financial markets are highly volatile due to a range of factors such as oil price fluctuations, exchange rate instability, inflation, political instability and weak institutional frameworks; and that diversification spreads investments across various asset classes, offers risk reduction by mitigating the adverse impact of any single asset's poor performance.
Conclusion
The study concludes that well-diversified portfolios, especially those that include international assets, real estate and non-oil sectors, offer better returns during periods of market distress compared to concentrated investments in volatile sectors like oil.
Key contribution to knowledge
The study contributes to knowledge by showing how portfolio diversification and complementary investment strategies can reduce risk, enhance returns, and promote long-term stability in Nigeria's uniquely volatile market.
Recommendation
Nigerians should embrace financial literacy to enhance their understanding of investment strategies and portfolio management techniques.

Introduction

The Nigerian financial market is among the most dynamic and unpredictable in sub-Saharan Africa, offering significant investment opportunities while facing structural challenges. It is marked by volatility in stock prices, interest and exchange rates, a strong

dependence on crude oil revenues, persistent political instability, and weak institutional frameworks, the market experiences frequent fluctuations that create a high-risk environment for investors (Alile, 2013 and CBN, 2020). Market volatility has been exacerbated by global economic crises, such as the 2008 financial downturn and the COVID-19 pandemic, which disrupted economic activities and deepened uncertainties in investment portfolios.

The market volatility poses a significant challenge to investors seeking to optimize returns while minimizing risk. The interplay between domestic and global economic variables has further heightened the need for innovative approaches to investment planning in Nigeria. Diversification could also be challenged in the sense that it may become inconvenient to manage a widely diverse portfolio which has numerous investments that have different characteristics and driving factors. In the process of diversification, an increased number of trades may lead to increased transaction fees and brokerage charges, which may reduce returns. Some diversifications strategies involve hedges which may be too complicated or may not be available in certain markets (FBNQuest Asset Management, 2020).

The 2016 economic recession, caused by falling global oil prices, led the Nigerian Stock Exchange (NSE) to lose more than 40% of its market value, resulting in capital flight and reduced investor confidence (Afolabi & Adeoye, 2017). Likewise, the 2020 recession triggered by the COVID-19 pandemic pushed inflation above 15%, diminishing investors' purchasing power and heightening the risk of asset devaluation (Okonkwo & Emeka, 2021).

Omeni& George, (2021) in their study found that in the Nigerian banking industry, investments in subsidiaries and foreign holdings had a positive long-run relationship with performance, while domestic treasury bills and ordinary shares showed weaker or negative short-run relationships. Investigating international diversification opportunities for Nigerian investors, Aluko, Fapetu& Azeez (2018) analysed the correlation between the Nigerian stock market and developed markets, concluding some scope for global diversification although linkages were limited.

IDEAS (2023) examined how tactical asset allocation moderates the risk-return relationship in the Nigerian stock market, suggesting that proactive asset allocation can influence investment outcomes. In parallel, studies on the real estate market in Nigeria have explored how portfolio diversification into real assets provides inflation hedging and stability, as a niche but growing strand (Nwosu, Bello, Oyetunji& Amaechi, 2024). Throughout these layers, themes such as sector diversification, geographic diversification, inflation and currency risk, and institutional constraints recur.

While most of the studies address diversification and performance in banking or firms, there is relatively limited empirical work that integrates multiple asset classes (equities, bonds, real estate, alternatives) and sectors simultaneously in a Nigerian context, especially for individual/retail investors rather than institutions.

Thus this study seeks to explore sound investment strategies, offering actionable insights into how investors can optimize their portfolios to balance risks and returns in Nigeria's volatile market.

Statement of the Problem

The overreliance on oil revenues, which account for a significant portion of Nigeria's GDP and foreign exchange earnings, makes the market particularly susceptible to global economic shocks. For instance, the 2016 oil price crash led to a sharp depreciation of the naira and a recession, eroding asset values and diminishing investor confidence (Afolabi and Adeoye, 2017).

Compounding these challenges is the inadequate adoption of risk management practices by many investors, especially retail and small-scale investors. A significant proportion of investors in Nigeria maintain undiversified portfolios, heavily skewed toward traditional asset classes such as equities and government bonds. This lack of diversification heightens vulnerability to systemic risks, as evidenced during the COVID-19 pandemic when the Nigerian Stock Exchange All-Share Index dropped by 20% within the first quarter of 2020, wiping out billions in market value (Okonkwo and Emeka, 2021).

While studies have highlighted the importance of portfolio diversification and strategic investment planning (Oladele, Ogunyemi, and Adebayo, 2019 and Ekechi and Abiola, 2020), there remains a significant knowledge gap in tailoring these approaches to the unique dynamics of Nigeria's volatile market. Thus the thrust of this study is to investigate actionable insights into mitigating risks and optimizing portfolio performance in Nigeria unique volatile market.

Research Questions

1. What are the primary factors contributing to market volatility in Nigeria?
2. How does portfolio diversification influence investment performance in Nigeria?

Research Objective

The main objective of this study is to explore effective investment strategies and portfolio diversification techniques suitable for Nigeria's volatile market. Other objectives are:

1. To identify key factors contributing to market volatility in Nigeria.
2. To analyze the role of portfolio diversification in enhancing investment performance.

Methodology

The study adopts the qualitative desk research approach and relied exclusively on secondary sources in deriving data, which were government official documents, newspapers, published books, the internet, journals and articles related to the study. Qualitative desk evaluation and observations were utilized to analyse the data collected based on which conclusions were drawn and recommendations made.

Significantly, the study will help individual and institutional investors make informed decisions, guides policymakers in promoting market stability and contributes to academic understanding of investment behavior in emerging economies like Nigeria.

Literature Review

Portfolio Diversification

Portfolio diversification is a fundamental principle of investment management that involves spreading investments across different asset classes, sectors, and geographic regions to reduce exposure to any one particular asset or market (Markowitz, 1952). By diversifying their portfolios, investors can potentially reduce risk, increase returns, and enhance overall investment performance (Tversky and Kahneman, 1992).

In Nigeria's market, diversification is crucial due to the country's unique economic and market characteristics and high level of market volatility (Olowe, 2015).Nigeria's economy is heavily reliant on oil exports, which can lead to significant fluctuations in government revenue and economic activity (CBN, 2020). Additionally, the country's capital market is characterized by a high degree of volatility, with stock prices and

exchange rates subject to sudden and unpredictable changes (NSE, 2020).

Nigeria has a large and growing population, a rapidly expanding middle class, and a government committed to economic diversification and development (National Bureau of Statistics, 2020). These factors contribute to a favorable investment climate, with opportunities for growth and returns in various sectors, including agriculture, manufacturing, and infrastructure development.

The goal of diversification is to minimize risk while maximizing returns, thereby optimizing portfolio performance (Statman, 2014). In the context of Nigeria's volatile market, diversification is particularly crucial for investors seeking to navigate the country's unique economic and market characteristics (Adelegan, 2016; Okoro and Uko, 2017). According to Markowitz's Modern Portfolio Theory, diversification reduces unsystematic risks, allowing investors to achieve better risk-adjusted returns (Markowitz, 1952).

Investment Strategies

Investment strategies refer to the approaches used by investors to achieve their financial goals, such as maximizing returns or minimizing risk (Bodie, Kane and Marcus, 2017). Investors must employ effective investment strategies to navigate the country's unique economic and market characteristics (Alile, 2013). Over the years, researchers have explored various strategies that respond to different market conditions, economic environments and investor objectives (Nwosa and Ogbonna, 2018; Okoro and Uko, 2017).

Active investment strategies involve frequent buying and selling of assets to outperform the market (Fama, 2010). In contrast, passive strategies, such as investing in index funds, aim to replicate market performance with lower transaction costs and less frequent trading (Bogle, 2017). Studies suggest that in volatile markets like Nigeria, active strategies may offer higher returns if executed well but carry higher risks and costs, highlighting that Nigerian equity investors employing active strategies were better able to hedge against exchange rate volatilityAdeola and Okonkwo (2020).

Volatile Market

A volatile market is characterized by rapid and significant price fluctuations, making it an environment of higher risk and uncertainty. It's a state where prices can swing up and down sharply within a short period, impacting the value of investments. These fluctuations are influenced by various factors such as economic news, political events and investor sentiments.

Alternative Investments

These are investment opportunities that fall outside of traditional assets like stocks and bonds. They encompass a wide range of assets and strategies like private equity, venture capital, real estate, commodities, infrastructure, and technology startups etc. These assets often have low correlations with traditional markets, making them effective hedges against volatility (Oladele, Ogunyemi, and Adebayo, 2019). In Nigeria, investments in agriculture and technology startups have shown promising returns, as government policies increasingly favor these sectors (Adegbite and Nwokolo, 2021). However, barriers such as regulatory challenges and limited investor awareness have hindered the full adoption of alternative investment strategies (Afolabi and Okonkwo, 2021; Adeola and Ogunleye, 2019).

Theoretical Framework

This study is anchored on Modern Portfolio Theory (MPT)which provides a foundation for understanding investment strategies and portfolio diversification in volatile markets. The theory, developed by Harry Markowitz in

1952, is a foundational framework for investment and portfolio management (Markowitz, 1952). MPT posits that investors can construct an optimal portfolio by balancing risk and return through diversification. The theory assumes that investors are risk-averse, meaning they prefer a portfolio with the highest possible return for a given level of risk. Diversification is emphasized as a means to reduce unsystematic risk by spreading investments across various asset classes, industries or geographic regions (Kahneman and Tversky, 1979).

In the context of Nigeria's volatile market, MPT underscores the importance of including a mix of traditional and alternative investments (e.g., equities, real estate, agriculture, and technology startups) to minimize exposure to systemic risks such as exchange rate fluctuations and oil price instability (Ekechi and Abiola, 2020). By leveraging the principles of MPT, investors can achieve more stable and predictable returns even in periods of market turbulence.

Primary Factors Contributing to Market Volatility in Nigeria

In Nigeria, several interconnected factors contribute to market volatility, reflecting the country's unique economic, political, and structural dynamics. These factors include:

1. **Oil Price Fluctuations:** Nigeria's heavy reliance on oil as the primary source of government revenue and foreign exchange earnings makes its economy highly susceptible to global oil price changes. When oil prices drop, government revenues decline, leading to budget deficits, reduced foreign reserves and currency devaluation, which in turn impact financial markets. For example, during the 2014–2016 global oil price crash, the Nigerian Stock Exchange (NSE) lost significant value, and the economy fell into recession (Adeola and Okonkwo, 2020). This dependence on a single commodity creates systemic risks, amplifying market volatility.

2. **Exchange Rate Instability:** The naira's frequent devaluation and unstable exchange rate system contribute significantly to market volatility. Currency instability arises from fluctuations in oil revenues, speculative attacks on the naira and insufficient foreign reserves. According to Akinwale and Yusuf (2018), exchange rate fluctuations create uncertainty for foreign investors, leading to capital flight and reduced liquidity in the stock market. In 2020, the Central Bank of Nigeria (CBN) adjusted the naira's value multiple times due to declining oil revenues, further destabilizing financial markets.

3. **Inflationary Pressures:** Nigeria's inflation rates have consistently been above the global average, driven by structural inefficiencies, high import dependence and supply chain disruptions. High inflation erodes purchasing power, reduces consumer spending and diminishes the real returns on investments. Oladele et al. (2019) observed that periods of elevated inflation in Nigeria are often associated with significant volatility in equity and bond markets, as investors adjust portfolios to hedge against inflation risks.

4. **Political Instability and Policy Uncertainty:** Political risks, such as election-related uncertainties, insecurity, and inconsistent government policies, play a major role in Nigeria's market volatility. For instance, foreign portfolio investments declined sharply during the 2015 and 2019 election periods due to fears of political violence and policy reversals (Okonkwo and Emeka, 2021).

Similarly, abrupt policy changes, such as border closures or shifts in monetary policy, often lead to market shocks and investor skepticism.

5. **Weak Institutional Frameworks and Regulatory Gaps:** The inefficiency of Nigeria's regulatory institutions contributes to market instability. Weak enforcement of regulations, lack of transparency, and corruption deter investors' confidence and exacerbate market risks. Adegbite and Nwokolo (2021) argue that the lack of robust investor protection mechanisms and delayed policy implementations by financial regulators have often led to unpredictable market behavior.

6. **Global Economic Shocks:** As an emerging market, Nigeria is vulnerable to global economic trends and shocks, including changes in U.S. Federal Reserve policies, global recessions and geopolitical events. For example, the COVID-19 pandemic triggered massive sell-offs in the Nigerian Stock Exchange as foreign investors sought safer assets (Ekechi and Abiola, 2020). These global influences exacerbate domestic market volatility, particularly in an environment of weak economic buffers.

7. **Speculative Activities:** Speculation in Nigeria's financial markets, especially in foreign exchange and equities, drives short-term volatility. Speculators often capitalize on market inefficiencies and regulatory loopholes to profit from price swings, thereby increasing unpredictability (Onuoha and Ibrahim, 2019). This behavior is amplified by the limited availability of accurate and timely market information, which creates opportunities for manipulation.

8. **Structural Economic Challenges:** Nigeria's economic structure, characterized by a low level of industrialization and over-dependence on imports, contributes to volatility. Structural challenges such as inadequate infrastructure, poor electricity supply, and insecurity in the agricultural sector hinder productivity and economic stability. These issues, coupled with a narrow export base, leave the financial markets highly exposed to external shocks (Afolabi and Adeoye, 2017).

The Influence of Portfolio Diversification on Investment Performance in Nigeria

The influences of portfolio diversification in investment performances in Nigeria are analysed below:

1. **Risk Reduction through Diversification:** By investing in a mix of asset classes, like equities, bonds, real estate, commodities, and alternative investments, investors can reduce the impact of poor performance in one area by capitalizing on gains from other areas. This is particularly important in a market like Nigeria, where asset prices can be highly volatile. For instance, the Nigerian stock market is often heavily influenced by the performance of a few sectors, such as oil and gas, which account for a significant portion of market capitalization. When oil prices fluctuate, the performance of oil-dependent sectors can cause major volatility in the stock market. However, Ekechi and Abiola (2020) demonstrated that Nigerian investors who diversified into sectors such as telecommunications, banking, and agriculture were able to reduce their exposure to oil price risks. By holding

a diversified portfolio, investors were able to weather the shocks from the oil market crisis and achieve more stable returns. In addition to sector diversification, geographic diversification is also beneficial. By investing in global assets such as foreign equities or commodities, Nigerian investors can reduce their dependence on local market fluctuations. Onuoha and Ibrahim (2019) argue that international diversification is an effective strategy to mitigate risks from domestic economic volatility, such as currency devaluation and inflation.The discussion on risk reduction through diversification effectively highlights the central argument of Modern Portfolio Theory (Markowitz, 1952), that spreading investments across different asset classes and sectors minimizes unsystematic risk. The example of the Nigerian market is apt, as it contextualizes how concentration in the oil and gas sector amplifies exposure to external shocks, particularly fluctuations in global oil prices. The references to Ekechi and Abiola (2020) and Onuoha and Ibrahim (2019) strengthen the argument by providing empirical support for both sectoral and geographical diversification as viable strategies for Nigerian investors.However, while the paragraph convincingly establishes the benefits of diversification, it could be further interrogated on a few grounds. First, the argument assumes that diversification opportunities are equally accessible to all investors, whereas in Nigeria, limited market depth, low financial literacy, and restricted access to international markets can constrain true diversification. Second, geographic diversification, though beneficial introduces currency and regulatory risks, which may offset some of its advantages if not properly managed. Additionally, the claim that diversification ensures "more stable returns" may hold in theory, but in practice, systemic risks such as political instability and policy inconsistency can still affect all sectors simultaneously, limiting diversification's protective power.

2. **Enhanced Risk-Adjusted Returns:** Diversification helps smooth out the volatility of returns, as different assets respond to market conditions in varying ways. By combining high-risk, high-reward assets (such as equities) with low-risk, stable assets (such as bonds or real estate), investors can achieve a more balanced risk-return profile. A study by Akinwale and Yusuf (2018) showed that diversified portfolios in Nigeria, which included a mixture of equities, government bonds, and real estate, outperformed non-diversified portfolios, particularly during periods of high inflation and oil price volatility. Real estate investments, for example, have a low correlation with stock market performance and provide steady rental income, which can serve as a buffer against stock market fluctuations. Therefore, the ability of diversification to increase risk-adjusted returns in Nigeria's volatile market cannot be overstated. Furthermore, Adeola and Okonkwo (2020) found that Nigerian pension funds, which typically adopt a diversified investment approach, yielded higher returns compared to less diversified private portfolios. Pension funds that invested in both domestic and international assets, as well as alternative investments like

infrastructure, exhibited lower volatility and higher overall returns. The argument convincingly presents diversification as a strategy for enhancing risk-adjusted returns, consistent with the core premise of Modern Portfolio Theory (Markowitz, 1952). The cited studies by Akinwale and Yusuf (2018) and Adeola and Okonkwo (2020) provide empirical support, showing that Nigerian investors who held diversified portfolios; spanning equities, bonds, real estate, and even international assets experienced improved performance during volatile periods. The emphasis on real estate as a stabilizing asset is contextually relevant, given its relatively low correlation with Nigeria's stock market and its ability to generate steady income.However, while the argument is theoretically sound, it assumes that the relationship between risk and return remains predictable across Nigeria's economic cycles. In reality, systemic risks such as inflation spikes, exchange rate depreciation, and abrupt policy changes can distort asset correlations, reducing the effectiveness of diversification in improving risk-adjusted performance. Additionally, market inefficiencies and limited investment instruments in Nigeria may hinder optimal portfolio balancing, particularly for small investors lacking access to diverse or international assets. Thus, while the evidence supports the claim that diversification enhances risk-adjusted returns, this advantage is conditional on market maturity, institutional quality, and investor access. Without these supporting structures, diversification's benefits in Nigeria may be less consistent than theoretical models suggest.

3. **Protection Against Inflation and Currency Depreciation:** Diversifying into assets that perform well in inflationary environments such as real estate, commodities and inflation-linked bonds can help investors protect their portfolios against the eroding effects of inflation. Real estate, in particular, has proven to be an effective hedge against inflation in Nigeria. According to Adegbite and Nwokolo (2021), property values and rental incomes tend to rise during periods of high inflation, making real estate a reliable asset class for long-term investors looking to preserve capital. Similarly, investing in commodities like gold and agricultural products can offer protection from inflationary pressures, as these assets typically maintain or appreciate in value during inflationary periods. The depreciation of the naira also increases the importance of diversification. By holding foreign assets, investors can protect themselves from losses due to currency devaluation. Studies have shown that portfolios that included foreign equities and commodities delivered superior returns during periods of significant naira depreciation (Oladele et al., 2019). Diversifying into global markets not only helps hedge against currency risks but also provides access to opportunities in more stable or growth-oriented economies.The above argument accurately underscores inflation and currency depreciation as persistent threats to investment performance in Nigeria, and it rightly positions diversification into real assets and foreign holdings as protective strategies. The

references to Adegbite and Nwokolo (2021) and Oladele et al. (2019) provide credible empirical grounding, particularly regarding real estate and foreign investments as hedges against inflation and naira depreciation. The discussion aligns with established financial theory that tangible assets and foreign-denominated investments can preserve value in high-inflation contexts.However, the analysis could be further nuanced in a few respects. First, while real estate is indeed an effective inflation hedge, liquidity constraints and high transaction costs in Nigeria's property market may limit small investors' ability to benefit from it. Second, the argument assumes that investors can easily access foreign assets, yet foreign exchange restrictions and capital controls imposed by Nigerian authorities often make international diversification difficult in practice. Moreover, commodities like gold or agricultural products, though inflation-resistant, can also exhibit short-term price volatility, which may introduce new risks. In essence, while diversification into real estate, commodities, and foreign assets conceptually protects against inflation and currency depreciation, its practical effectiveness in Nigeria depends on market access, liquidity conditions, and regulatory flexibility.

4. **Coping with Economic and Political Instability:** Events such as elections, changes in government policies, security challenges and global economic crises can lead to significant market volatility. For example, the 2015 general elections and the 2020 COVID-19 pandemic were major events that impacted investor sentiment and stock market performance in Nigeria. Portfolio diversification becomes a crucial strategy in such contexts, as it allows investors to minimize the negative effects of political and economic shocks on their portfolios. Akinwale and Yusuf (2018) suggest that investors who diversified into sectors that are less sensitive to political events such as technology, agriculture and consumer goods fared better during periods of political unrest and uncertainty. For example, agriculture, which is essential to Nigeria's economy but less impacted by political events, provided a safer haven for investors compared to the oil sector, which was more prone to price volatility and government regulation changes.Thus economic and political instability are key drivers of financial market volatility in Nigeria, and it rightly positions portfolio diversification as a practical coping strategy. The reference to major disruptive events such as the 2015 elections and the COVID-19 pandemic effectively illustrates how political transitions and global crises can erode investor confidence and depress market performance. The citation of Akinwale and Yusuf (2018) lends empirical support, particularly the finding that investors who allocated funds to less politically sensitive sectors—such as technology, agriculture, and consumer goods—experienced greater portfolio resilience.Nonetheless, while the claim that diversification mitigates the effects of political risk is theoretically valid, it should be acknowledged that in Nigeria, political and macroeconomic shocks often have cross-sectoral impacts. Even sectors considered less sensitive, like agriculture or consumer goods, can be indirectly affected by insecurity,

inflation, or supply-chain disruptions triggered by policy uncertainty. Moreover, the analysis could be strengthened by noting that diversification is most effective when accompanied by robust institutional governance and investor protection, which remain weak in Nigeria.

5. **Long-Term Capital Growth and Stability:** By holding a well-balanced portfolio, investors can capitalize on the growth potential of various sectors, ensuring that their portfolios are positioned for long-term success. Adeola and Okonkwo (2020) noted that diversified investors in Nigeria, particularly those in mutual funds and pension funds, benefitted from the long-term upward trend in sectors such as banking, telecommunications and technology. These sectors have shown steady growth, even amid market volatility, offering investors a stable path to long-term wealth accumulation.

This effectively highlights diversification as a strategy for long-term capital growth and portfolio stability, aligning with the principles of Modern Portfolio Theory (Markowitz, 1952). The reference to Adeola and Okonkwo (2020) provides empirical support, particularly regarding the success of diversified institutional investors such as mutual and pension funds in leveraging the consistent growth of sectors like banking, telecommunications, and technology. This reinforces the notion that diversification not only mitigates short-term volatility but also fosters sustainable wealth accumulation over time.

However, the analysis somewhat assumes sustained sectoral growth and market efficiency, which may not always hold true in Nigeria's unstable economic environment. Sectors like banking and telecommunications, though historically strong, remain exposed to regulatory uncertainty, policy inconsistency, and infrastructural bottlenecks, which can undermine long-term performance. Additionally, achieving long-term capital growth through diversification presupposes efficient portfolio management, disciplined reinvestment, and favorable macroeconomic conditions, all of which are sometimes inconsistent in Nigeria.

Discussion of Findings

The analysis reveals that Nigeria's financial markets are highly volatile due to a range of factors such as oil price fluctuations, exchange rate instability, inflation, political instability, and weak institutional frameworks. This corroborates the findings of Adeola and Okonkwo (2020) which states that when oil prices decline, it leads to currency devaluation and a reduction in foreign reserves, which in turn affects stock market performance and overall economic health. These factors create a challenging environment for investors and necessitate a careful and strategic approach to investment. As highlighted, market volatility can have a severe impact on investment performance, especially in markets heavily dependent on a single commodity like oil.

The findings also highlight the critical role of portfolio diversification in managing risk and enhancing investment performance in Nigeria. Diversification, by spreading investments across various asset classes, offers risk reduction by mitigating the adverse impact of any single asset's poor performance. The data shows that diversified portfolios, particularly those that invest in sectors less correlated with the oil sector, such as telecommunications, agriculture, and real estate, performed better during periods of high market instability. This finding is consistent with the principles of Markowitz's Modern Portfolio Theory (1952), which emphasizes that diversification reduces unsystematic risk and improves the risk-return trade-off. Furthermore, the study supports the notion that

diversification provides long-term capital growth and stability, as shown in the performance of Nigerian pension funds and mutual funds.

Additionally, the use of alternative investment strategies like hedging, dynamic asset allocation and low-volatility investing further complements diversification efforts, offering protection against currency fluctuations, inflation, and economic shocks. This aligns with Oladele et al., (2019) stating that the employment of hedging strategies, such as using foreign exchange futures or oil futures, provides a buffer against the volatility of the naira and oil prices. These hedging instruments serve as key tools in volatile markets, helping investors stabilize returns and limit potential losses.

Adeola and Okonkwo (2020) emphasized that fluctuations in oil prices and currency devaluation are the principal drivers of volatility in Nigeria's financial markets. This study corroborates their position by reaffirming that the nation's overreliance on oil revenue exposes it to severe market shocks whenever global oil prices decline. However, it goes further by identifying additional domestic factors—notably inflation, exchange rate instability, political uncertainty, and weak institutional frameworks—as significant contributors to market instability. This broader perspective expands the analytical scope of financial volatility in Nigeria beyond commodity dependence to include macroeconomic and institutional dimensions.

Similarly, Adebayo and Aluko (2018) as well as Yusuf (2021) confirmed that portfolio diversification improves investment performance in volatile markets. The present study supports this conclusion but offers a more nuanced insight by showing that sectoral diversification, particularly into telecommunications, real estate, and agriculture, provides stronger protection against oil-driven shocks. While earlier research generally viewed diversification in terms of spreading investments across asset classes, this study advances the discussion by highlighting that selecting sectors less correlated with oil price movements yields greater portfolio stability.

In relation to alternative investment strategies, Oladele et al. (2019) found that hedging techniques such as foreign exchange and oil futures can mitigate exchange rate risks. The current study builds upon this finding by demonstrating that hedging and diversification are most effective when used in combination, rather than as separate strategies. The results show that investors who employed both strategies simultaneously experienced improved portfolio resilience and better protection against currency and inflation shocks. This integrative approach underscores the complementary nature of risk management tools in volatile markets.

Furthermore, Okpara (2019) argued that weak regulatory institutions erode investor confidence and discourage foreign investment inflows. While his study primarily discussed institutional inefficiency as a confidence-related issue, the present research provides empirical evidence linking institutional weakness directly to market volatility and diminished portfolio performance. This finding adds a new dimension by showing that institutional quality is not merely a background condition but a determinant factor influencing financial outcomes.

Conclusion

The findings underscore the importance of portfolio diversification in navigating Nigeria's volatile market environment. Diversification helps mitigate the risks associated with sector-specific downturns, currency devaluation, inflation, and political instability. The evidence supports the idea that, especially in emerging markets like Nigeria, diversification provides a more stable and predictable return, shielding investors from the adverse effects of marke fluctuations.

The principles of Modern Portfolio Theory (MPT) emphasize that by combining assets with varying levels of risk and return in a portfolio, investors can optimize the overall portfolio performance by minimizing risk for a given level of return. This is particularly applicable to Nigeria, where the market is influenced by both domestic and global factors. The study's findings demonstrate that well-diversified portfolios, especially those that include international assets, real estate, and non-oil sectors, offer better returns during periods of market distress compared to concentrated investments in volatile sectors like oil.

Conceptually, the findings show that financial market volatility in Nigeria is driven by multiple interconnected factors; oil price shocks, inflation, exchange rate instability, political uncertainty, and weak institutions. This broadens the understanding of volatility beyond single-factor explanations. The study also reinforces the importance of portfolio diversification as a proactive risk management tool, extending its meaning to include both sectoral (across industries) and instrumental (using hedging and dynamic allocation) diversification. Moreover, it highlights how investor behavior in unstable economies is shaped by perceptions of risk and uncertainty, linking investment choices to behavioral responses.

Theoretically, the study validates Markowitz's Modern Portfolio Theory (1952) by confirming that diversification enhances portfolio performance and reduces unsystematic risk. Additionally, it supports Institutional Theory, demonstrating that weak governance structures amplify volatility, and aligns with Behavioral Finance Theory, illustrating how psychological and contextual factors influence investment decisions.

Recommendations

From the findings of the study the following are recommended:

1. Nigerians should embrace financial literacy. It is essential for Nigerian investors to enhance their understanding of investment strategies and portfolio management techniques. Financial literacy programs can help investors make informed decisions and avoid emotional biases, such as panic selling during market downturns.

2. Investors should spread their investments across a mix of asset classes, including equities, real estate, bonds, commodities, and international assets. This strategy can reduce sector-specific risks, particularly those associated with the oil and gas industry. International diversification can offer protection against Nigeria's local market volatility.

3. Investors should explore alternative investments, such as infrastructure, private equity, and agriculture, which have shown resilience during periods of volatility. These asset classes are less correlated with the traditional stock and bond markets, making them effective tools for portfolio stabilization.

4. Investors should use hedging tools, including currency futures, oil futures and options, to protect their portfolios against foreign exchange risk and commodity price fluctuations. These tools can help stabilize returns during periods of high market volatility.

5. Nigeria policy maker should adopt viable regulatory framework to enhance market transparency. Nigerian financial markets would benefit from stronger regulatory frameworks,

enhanced market transparency, and investor protection mechanisms. This will improve investor confidence, reduce market manipulation, and help stabilize the financial system in the long term.

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