Principles for successful long-term investing

Using Market Insights to achieve better client outcomes

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Asset Management

THE KEY TO SUCCESSFUL INVESTING ISN'T PREDICTING THE FUTURE, IT'S LEARNING FROM THE PAST AND UNDERSTANDING THE PRESENT. IN "PRINCIPLES FOR SUCCESSFUL LONG-TERM INVESTING", WE PRESENT SIX TIME-TESTED STRATEGIES FOR GUIDING PORTFOLIOS THROUGH TODAY'S CHALLENGING MARKETS AND TOWARDS TOMORROW'S GOALS.

YOU WILL FIND SLIDES FROM OUR *GUIDE TO THE MARKETS*, ALONG WITH COMMENTARY PROVIDING ADDITIONAL PERSPECTIVE AND ACTION STEPS.

PRINCIPLES FOR SUCCESSFUL LONG-TERM INVESTING

1. INVEST FOR THE FUTURE
2. CASH IS RARELY KING
3. COMPOUNDING WORKS MIRACLES
4. VOLATILITY IS NORMAL
5. STAYING INVESTED MATTERS
6. DIVERSIFICATION WORKS

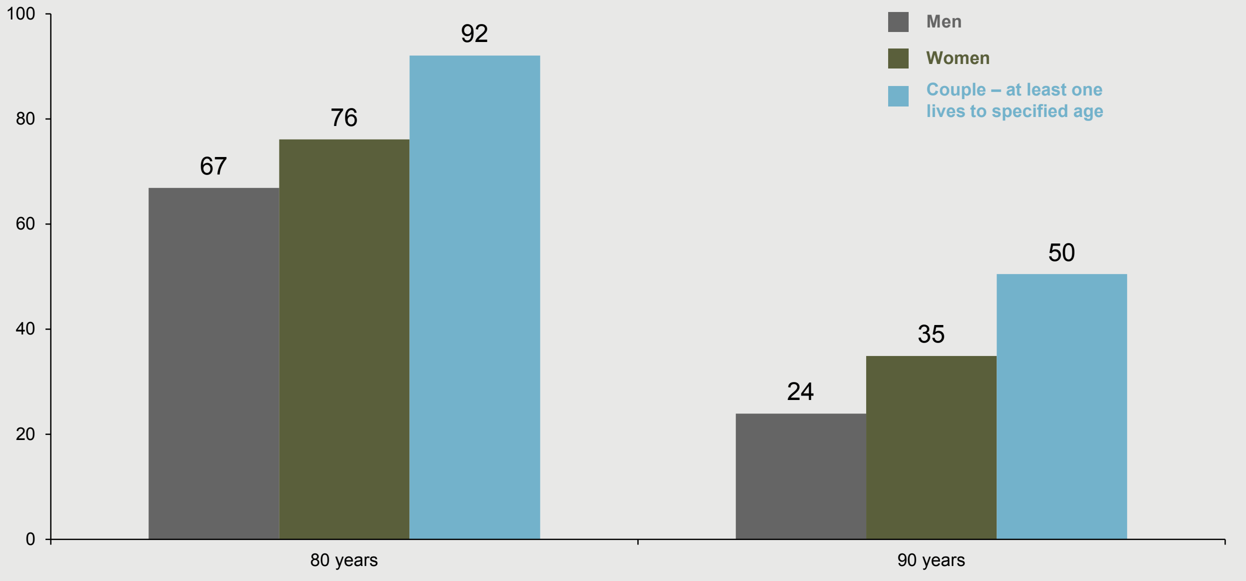
1 INVEST FOR THE FUTURE

We are living longer

Thanks to advances in medicine and healthier lifestyles, people are living longer lives. This chart shows the probability of reaching the age of 80 or 90 for someone who is 65 today. A 65-year-old couple might be surprised to learn that there is a 50% chance that at least one of them will live another 25 years, reaching the age of 90.

Life expectancy

GTM – UK



Source: ONS 2015-2017 Life Tables, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results.
Guide to the Markets - UK. Data as of 31 December 2018.

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2 CASH IS RARELY KING

LEFT: **Cash pays less**

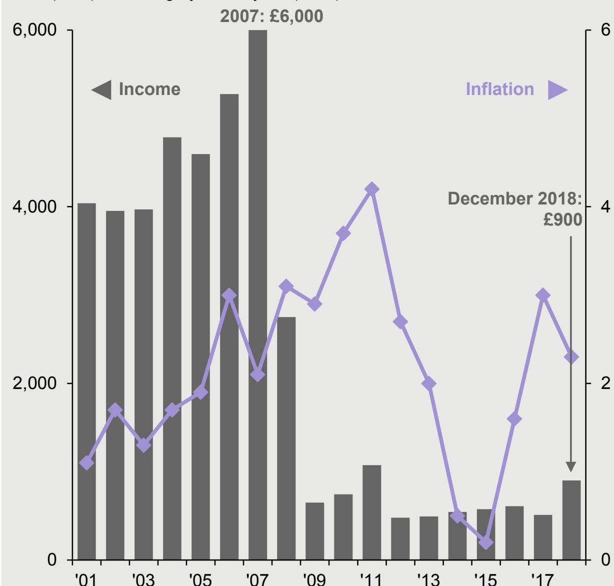
Investors often think of cash as a safe haven in volatile times, or even as a source of income. But the ongoing era of ultra-low interest rates has depressed the return available on cash to near zero, leaving cash savings vulnerable to erosion by inflation over time. With interest rates expected to remain low, investors should be sure an allocation to cash does not undermine their long-term investment objectives.

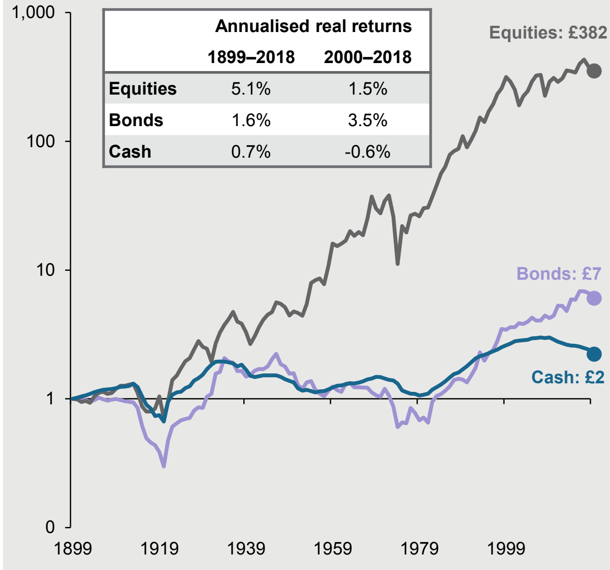
RIGHT: **Cash underperforms over the long term**

Cash left on the sidelines earns very little over the long run. Investors who have parked their cash in the bank have missed out on the impressive performance that would have come with staying invested over the long term.

Cash investments

GTM – UK





	Annualised real returns	
	1899–2018	2000–2018
Equities	5.1%	1.5%
Bonds	1.6%	3.5%
Cash	0.7%	-0.6%

Source: (Left) Bloomberg, ONS, J.P. Morgan Asset Management. Inflation is the percentage change year on year for UK consumer prices. (Right) Bloomberg, Bloomberg Barclays, Dimson, FactSet, Marsh and Staunton ABN AMRO/LBS Global Investment Returns calculated from the Yearbook 2008, J.P. Morgan Asset Management. J.P. Morgan estimates from 2008. Equities: FTSE 100; Bonds: JPMorgan GBP Government Bond Index; Cash: three-month GBP LIBOR (prior to 2008 cash is short-dated Treasury bills). Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 31 December 2018.

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3 COMPOUNDING WORKS MIRACLES

LEFT: **Start early and invest regularly**

Compound interest has been called the eighth wonder of the world. Its power is so great that even missing out on a few years of saving and growth can make an enormous difference to your eventual returns. Starting to save at the age of 25 and investing £5,000 per year in an investment that grows at 5% a year would leave you with nearly £300,000 more by the age of 65 than if you started at 35, even though overall you would only have invested an extra £50,000.

RIGHT: **Re-invest income from investments if you don't need it**

You can make even better use of the magic of compounding if you reinvest the income from your investments to boost your portfolio value further. The difference between reinvesting—and not reinvesting—the income from your investments over the long term can be enormous.

The power of compounding

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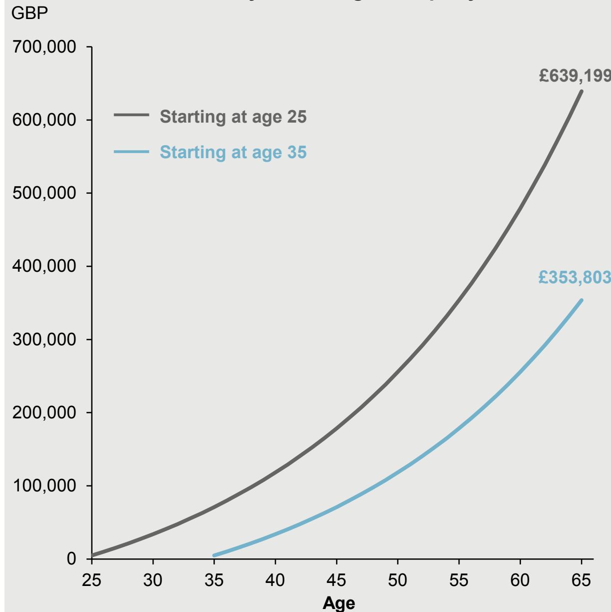

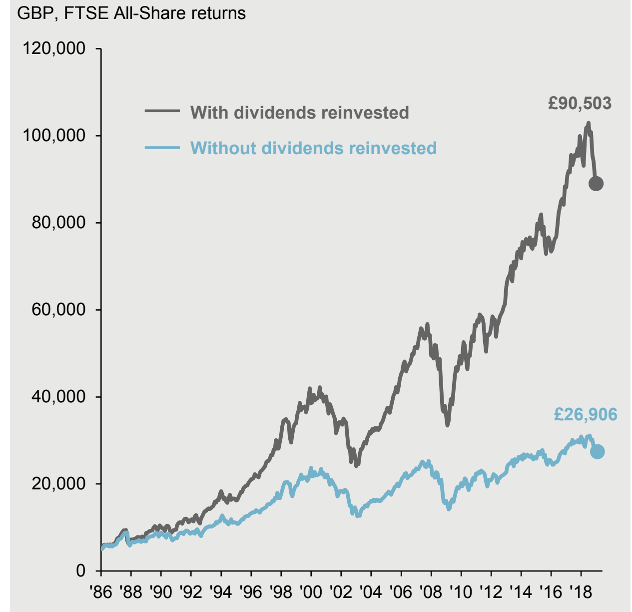

Source: (Left) J.P. Morgan Asset Management. For illustrative purposes only, assumes all income reinvested, actual investments may incur higher or lower growth rates and charges. (Right) Bloomberg, FTSE, J.P. Morgan Asset Management. Based on FTSE All-Share index and assumes no charges. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 31 December 2018.

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4 VOLATILITY IS NORMAL; DON'T PANIC

Keep your head when all about you are losing theirs

Every year has its rough patches. The red dots on this chart represent the maximum intra-year equity decline in every calendar year, or the difference between the highest and lowest point reached by the market in those 12 months. It is hard to predict these pullbacks, but double-digit declines in markets are a fact of life in most years; investors should expect them.

Volatility in financial markets is normal and investors should be prepared upfront for the ups and downs of investing, rather than reacting emotionally when the going gets tough. The grey bars represent the calendar-year market price returns. They show that, despite the pullbacks every year, the equity market has recovered to deliver positive returns in most calendar years.

The lesson is, don't panic: more often than not a stock market pullback is an opportunity, not a reason to sell.

Annual returns and intra-year declines

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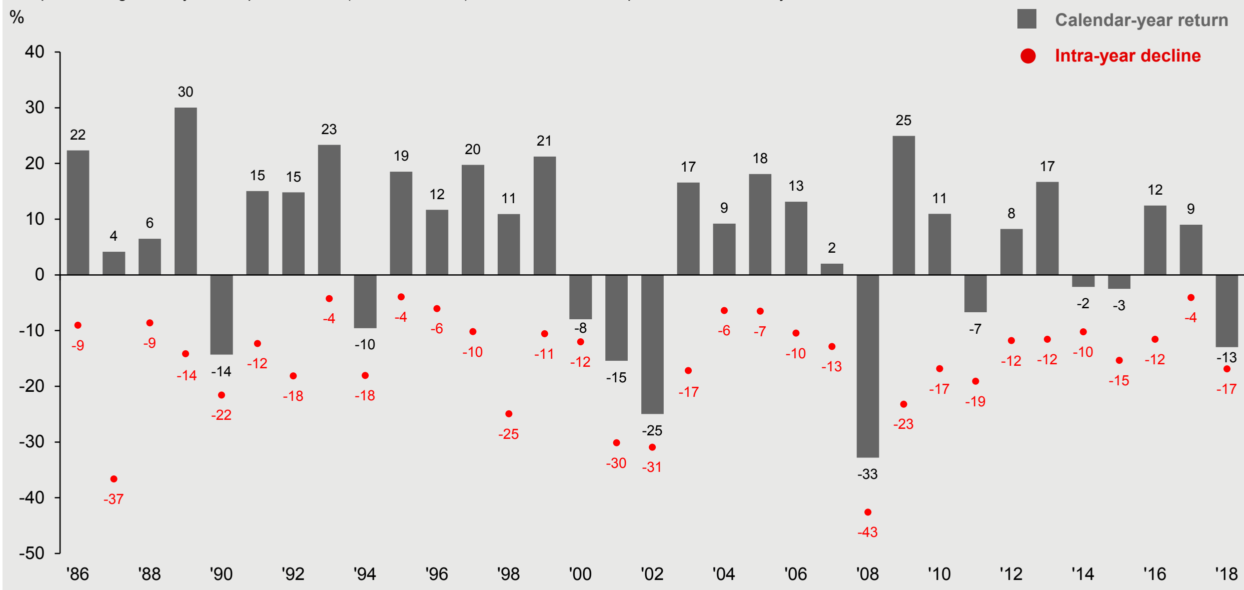

Source: FTSE, Thomson Reuters Datastream, J.P Morgan Asset Management. Returns are based on local price only and do not include dividends. Intra-year decline refers to the largest market fall from peak to trough within a short time period during the calendar year. Returns shown are calendar years from 1986 to 2018. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 31 December 2018.

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5 STAYING INVESTED MATTERS

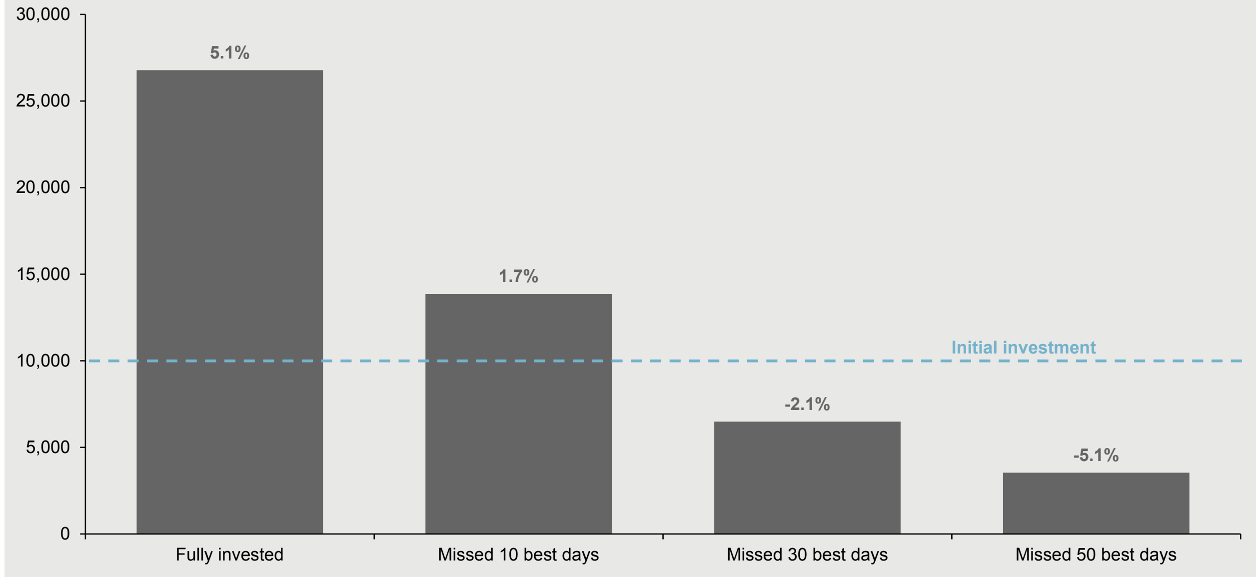
Don’t put your emotions in charge of your investments

Market timing can be a dangerous habit. Pullbacks are hard to predict and strong returns often follow the worst returns. But often investors think they can outsmart the market—or they let emotions like fear and greed push them into investment decisions they later regret.

This chart is a sobering reminder of the potential costs of trying to time the market. Even missing a handful of days in the market can have a devastating effect on an investor’s total returns.

Impact of being out of the market

GTM – UK



Source: Bloomberg, FTSE, J.P. Morgan Asset Management. Investment outcomes based on total return. For illustrative purposes only. Returns calculated daily over the time period assuming no return on each of the specified number of best days. Past performance is not a reliable indicator of current and future results.
Guide to the Markets - UK. Data as of 31 December 2018.

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5 STAYING INVESTED MATTERS (PART 2)

Good things come to those who wait

While markets can always have a bad day, week, month or even a bad year, history suggests investors are much less likely to suffer losses over longer periods. Investors need to keep a long-term perspective.

This chart illustrates this concept. Investors should not necessarily expect the same rates of return in the future as we have seen in the past. But a diversified blend of stocks and bonds has not suffered a negative return over any 10-year rolling period, despite the great swings in annual returns we have seen since 1950.

US asset returns by holding period

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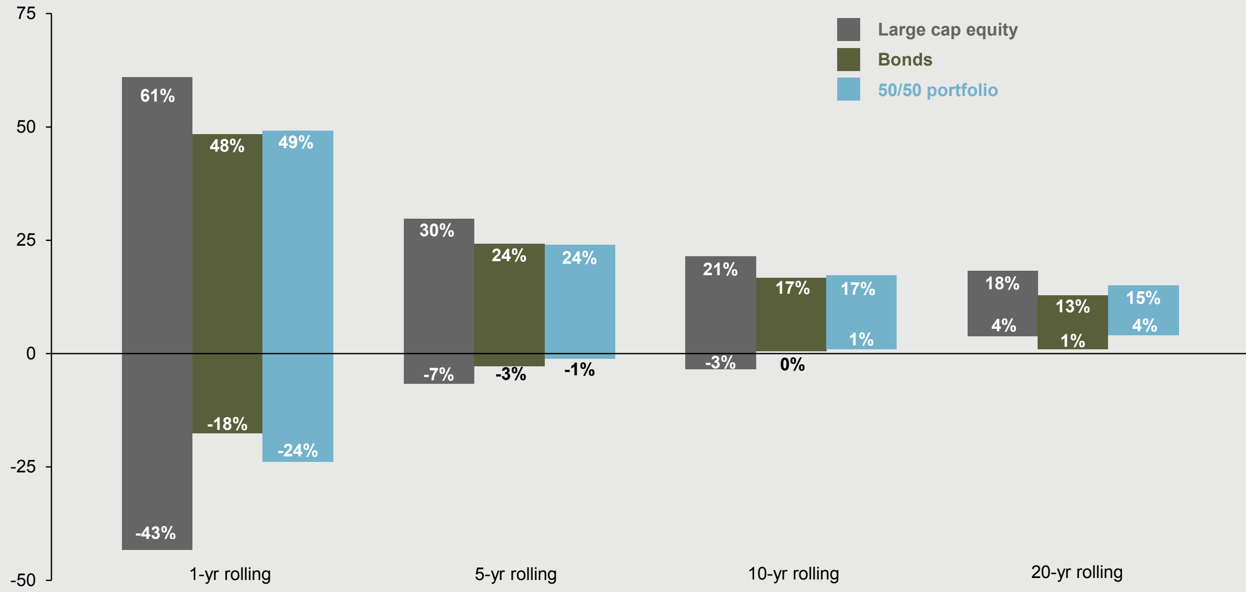

Source: Strategas/Ibbotson, J.P. Morgan Asset Management. Large cap equity represents the S&P 500 Composite and Bonds represents the Strategas/Ibbotson US Government Bond Index and US Long-term Corporate Bond Index. Returns shown are per annum and are calculated based on monthly returns from 1950 to latest available and include dividends. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 December 2018.

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6 DIVERSIFICATION WORKS

Don't put all your eggs in one basket

Since the start of 2008, it has been a volatile and tumultuous ride for investors, with natural disasters, geopolitical conflicts and a major financial crisis.

Yet despite these difficulties, the worst-performing asset classes of those shown here have been cash and commodities. Meanwhile, a well-diversified portfolio, including stocks, bonds and some other asset classes, has returned above 7% per year over this time period. The diversified portfolio has also provided a much smoother ride for investors than investing in just equities, as shown by its position in the chart's volatility column.

Asset class returns (GBP)

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Ann. return	Vol.
Govt bonds 52.6%	EME 59.4%	REITS 31.6%	EMD 9.3%	REITS 14.9%	DM Equities 25.0%	REITS 35.1%	REITS 8.2%	HY bonds 36.3%	EME 25.8%	Govt bonds 5.8%	HY bonds 11.3%	EME 25.4%
IG bonds 26.5%	HY bonds 41.9%	EME 22.9%	REITS 8.1%	HY bonds 14.3%	Portfolio 5.9%	EMD 12.1%	EMD 7.1%	Cmdty 33.3%	DM Equities 12.4%	IG bonds 2.4%	REITS 11.0%	Govt bonds 16.2%
EMD 23.3%	DM Equities 16.4%	Cmdty 20.5%	Govt bonds 7.1%	EME 13.4%	HY bonds 5.3%	DM Equities 12.1%	DM Equities 5.5%	EME 33.1%	Portfolio 5.6%	HY bonds 1.9%	EMD 10.3%	Cmdty 15.3%
Cash 6.9%	Portfolio 15.7%	HY bonds 18.4%	IG bonds 5.1%	EMD 13.3%	Hedge Funds 4.7%	IG bonds 9.6%	HY bonds 2.9%	EMD 31.4%	HY bonds 0.9%	REITS 1.9%	DM Equities 8.6%	REITS 14.4%
Hedge Funds 6.3%	EMD 14.1%	DM Equities 15.9%	HY bonds 3.9%	DM Equities 11.4%	REITS 1.3%	Portfolio 8.7%	Govt bonds 2.3%	REITS 30.4%	Cash 0.4%	EMD 1.3%	IG bonds 7.8%	HY bonds 13.8%
Portfolio 2.5%	REITS 13.5%	EMD 15.6%	Cash 1.2%	Portfolio 7.6%	Cash 0.5%	HY bonds 6.2%	IG bonds 2.0%	DM Equities 29.0%	EMD -0.1%	Cash 0.9%	Portfolio 7.7%	DM Equities 12.8%
HY bonds 1.2%	IG bonds 6.1%	Portfolio 14.8%	Portfolio -1.2%	IG bonds 6.3%	IG bonds -1.5%	Hedge Funds 5.6%	Hedge Funds 1.9%	Portfolio 27.0%	REITS -0.2%	Portfolio -0.5%	Govt bonds 6.6%	EMD 10.5%
Cmdty -10.9%	Cmdty 5.9%	Govt bonds 9.2%	DM Equities -4.3%	Cash 1.4%	EME -4.1%	Govt bonds 5.4%	Portfolio 1.4%	IG bonds 24.4%	IG bonds -0.4%	Hedge Funds -0.9%	EME 4.6%	IG bonds 8.8%
REITS -13.2%	Cash 2.2%	IG bonds 9.2%	Hedge Funds -8.2%	Hedge Funds -1.0%	Govt bonds -6.1%	EME 4.3%	Cash 0.7%	Hedge Funds 22.3%	Govt bonds -2.0%	DM Equities -2.5%	Hedge Funds 3.1%	Portfolio 8.0%
DM Equities -17.4%	Hedge Funds 1.0%	Hedge Funds 8.5%	Cmdty -12.7%	Govt bonds -2.6%	EMD -8.3%	Cash 0.6%	EME -9.7%	Govt bonds 21.3%	Hedge Funds -3.2%	Cmdty -5.7%	Cash 1.5%	Hedge Funds 7.5%
EME -35.2%	Govt bonds -8.6%	Cash 0.9%	EME -17.6%	Cmdty -5.4%	Cmdty -11.2%	Cmdty -11.8%	Cmdty -20.3%	Cash 0.7%	Cmdty -7.1%	EME -8.9%	Cmdty -3.4%	Cash 1.8%

Source: Barclays, Bloomberg, FTSE, MSCI, J.P. Morgan Economic Research, Thomson Reuters Datastream, J.P. Morgan Asset Management. Annualised return covers the period from 2008 to 2018. Vol. is the standard deviation of annual returns. Govt bonds: Bloomberg Barclays Global Aggregate Government Treasuries; HY bonds: Bloomberg Barclays Global High Yield; EMD: J.P. Morgan EMBI Global; IG bonds: Bloomberg Barclays Global Aggregate – Corporates; Cmdty: Bloomberg Commodity; REITS: FTSE NAREIT All REITS; DM Equities: MSCI World; EME: MSCI EM; Hedge funds: HFRI Global Hedge Fund Index; Cash: JP Morgan Cash United Kingdom (3M). Hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation): 30% DM equities; 10% EM equities; 15% IG bonds; 12.5% government bonds; 7.5% HY bonds; 5% EMD; 5% commodities; 5% cash; 5% REITS and 5% hedge funds. All returns except Hedge Funds are unhedged. All returns are total return, in GBP. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.*
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