Principles for successful long-term investing

Using Market Insights to achieve better client outcomes
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
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.
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.
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.
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.
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.

Returns of FTSE All-Share
GBP, value of a £10,000 investment between 1996 and 2016 with annualised return (%)

Source: FactSet, FTSE, J.P. Morgan Asset Management. For illustrative purposes only. Assumes all income is reinvested; returns calculated daily over the time period assuming no return on each of the specified number of best days. Guide to the Markets - UK. Data as of 31 December 2016.
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 in the past 66 years, despite the great swings in annual returns we have seen since 1950.
DIVERSIFICATION WORKS

Don’t put all your eggs in one basket

The last 10 years have 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 8% 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.
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