

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 SEVEN 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

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- 2 CASH IS RARELY KING
- 3 COMPOUNDING WORKS MIRACLES
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- 5 VOLATILITY IS NORMAL
- 6 TIMING THE MARKET IS DIFFICULT
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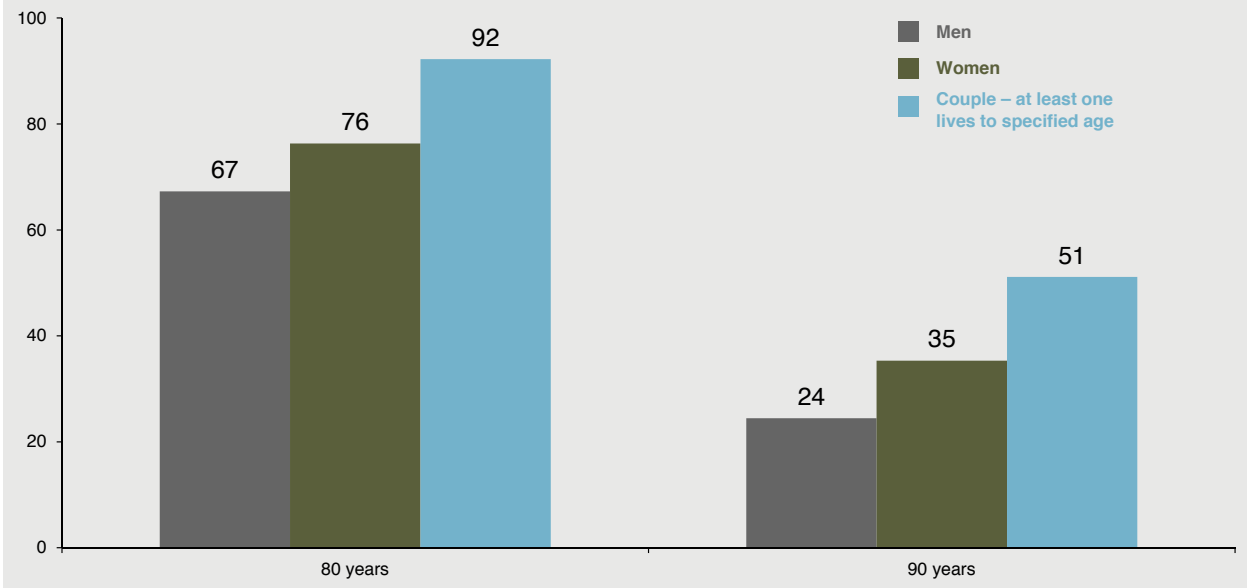
1 PLAN ON LIVING A LONG TIME

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 around a 50% chance that at least one of them will live another 25 years, reaching the age of 90. Your money may need to last longer than you think.

Probability of reaching ages 80 and 90

% probability, persons aged 65, by gender and combined couple



Source: ONS 2016-2018 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 2019.

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2 CASH IS RARELY KING (PART 1)

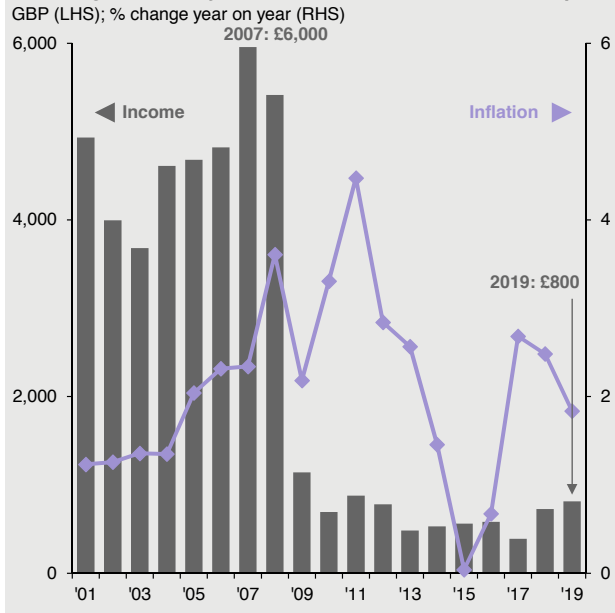
LEFT: **Cash pays less**

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.

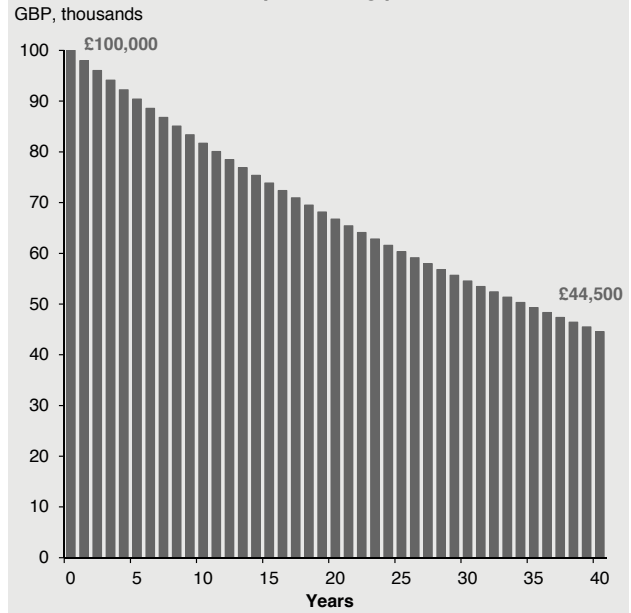
RIGHT: **Inflation eats away at your purchasing power**

A risk-averse saver who decides to hide their cash under the mattress will find that inflation reduces the real value of that cash over time. If money is not invested, the purchasing power - or amount of goods that money can buy - will decrease by more than half over a 40-year time horizon if inflation is 2% per year.

Income generated by £100,000 in a three-month bank deposit



Effect of 2% inflation on purchasing power of £100,000



Source: (Left) Bloomberg, ONS, J.P. Morgan Asset Management. Inflation is the percentage change year on year for UK consumer prices. Data shown are yearly averages. (Right) J.P. Morgan Asset Management. For illustrative purposes only, assumes no return on cash and an inflation rate of 2%. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 December 2019.

2 CASH IS RARELY KING (PART 2)

Cash underperforms over the long term

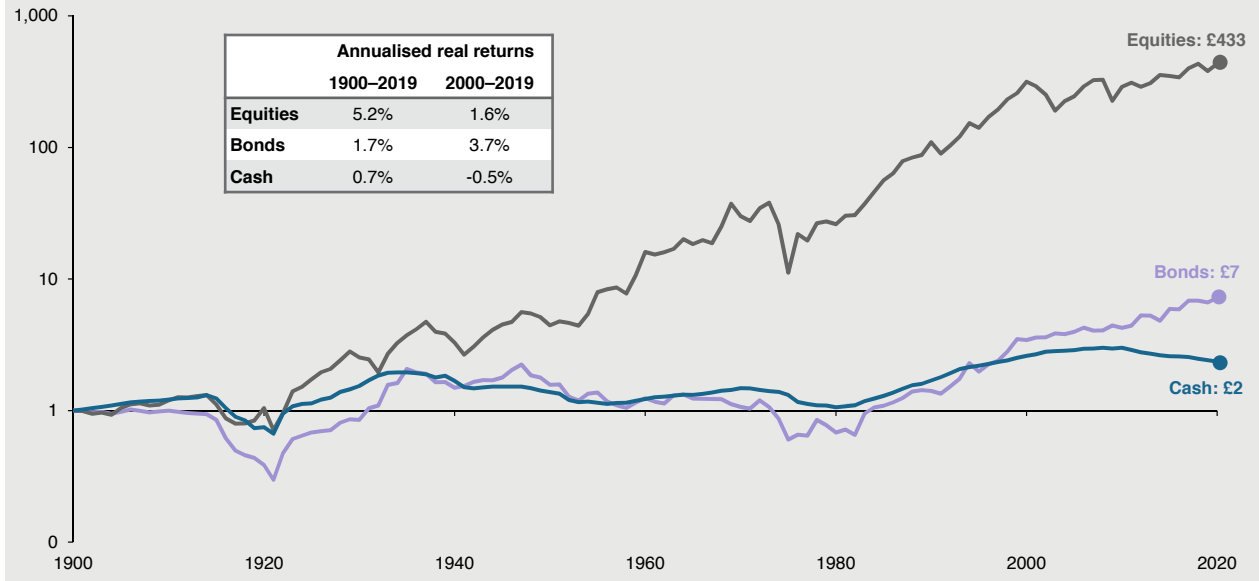
Cash left on the sidelines earns very little over the long run. Savers who have parked their cash in the bank have missed out on the impressive performance that would have come with investing over the long term. If you decide to invest, bear in mind that equities have typically outperformed bonds over a long time horizon, although there can be bumps along the road.

Long-term asset returns

GTM - UK

Total return of £1 in real terms

GBP, log scale for total returns



Source: Bloomberg, Bloomberg Barclays, Dimson, FactSet, FTSE, J.P. Morgan, Marsh and Staunton ABN AMRO/LBS Global Investment Returns calculated from the Yearbook 2008, J.P. Morgan Asset Management. 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 2019.

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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.

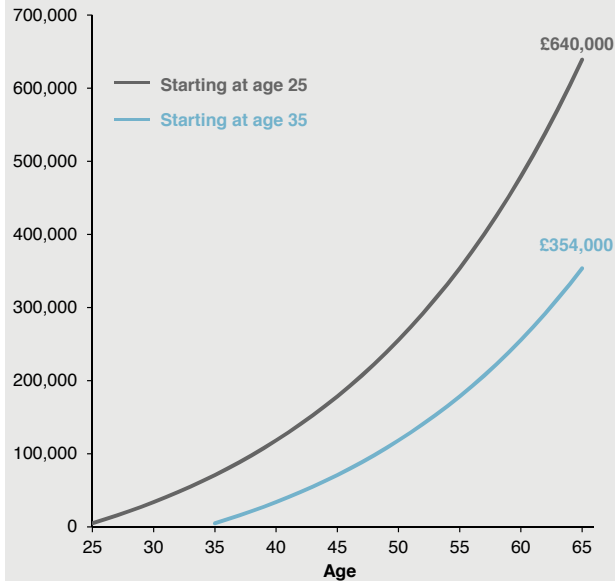
RIGHT: Re-invest income from investments if you don't need it

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.

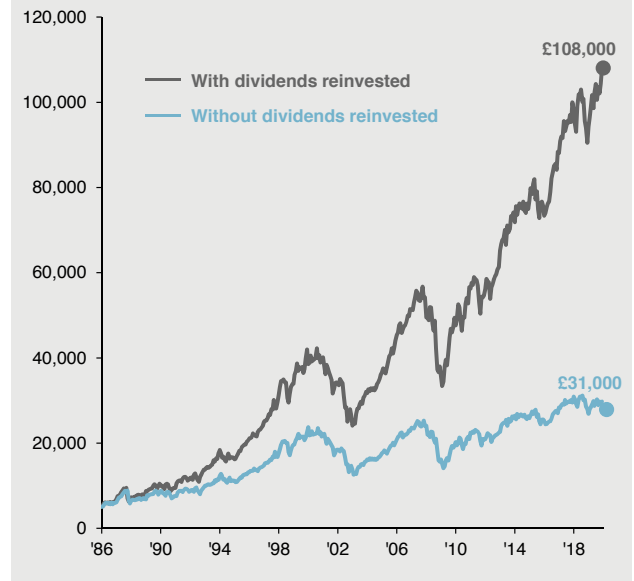
The effect of compounding

GTM - UK

£5,000 invested annually with 5% growth per year
GBP



£5,000 investment with/without income reinvested
GBP, FTSE All-Share returns



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 2019.

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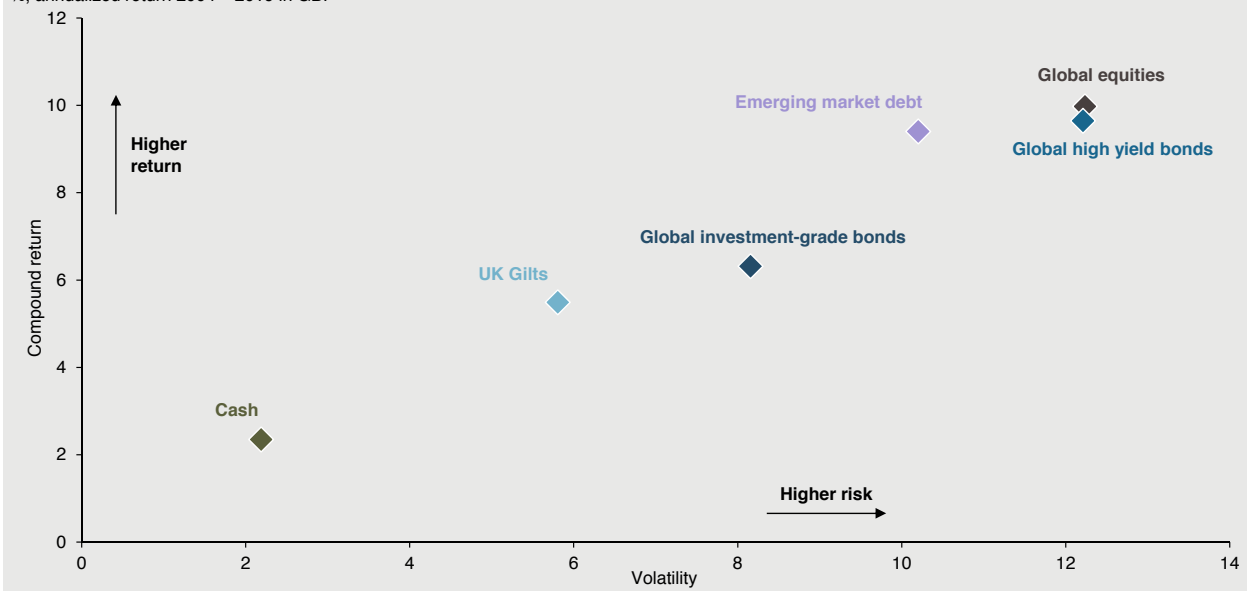
4 RETURNS AND RISKS GENERALLY GO HAND IN HAND

Investing involves trade-offs

The strongest-performing assets since the early 2000s have also been the assets whose prices have been most volatile. If you want to target a higher level of return, you have to be willing, and able, to tolerate larger swings in asset prices along the way. The opposite is also true. As the chart shows, lower-risk assets also tend to generate lower returns over the long term. If you are not willing to take on more risk, or your circumstances won't allow it, you'll need to be realistic about the returns you are likely to achieve.

Historic risk vs. return for selected asset classes

%, annualized return 2004 – 2019 in GBP



Source: Bloomberg Barclays, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Volatility is the standard deviation of annual returns since 2004. Cash: JP Morgan Cash United Kingdom (3M); UK Gilts: Bloomberg Barclays Sterling Gilts; Global investment-grade bonds: Bloomberg Barclays Global Aggregate – Corporate; Emerging market debt: J.P. Morgan EMBI Global; Global high yield bonds: Bloomberg Barclays Global High Yield; Global Equities: MSCI All-Country World Index (includes developed and emerging markets). Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 December 2019.

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5 VOLATILITY IS NORMAL

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.

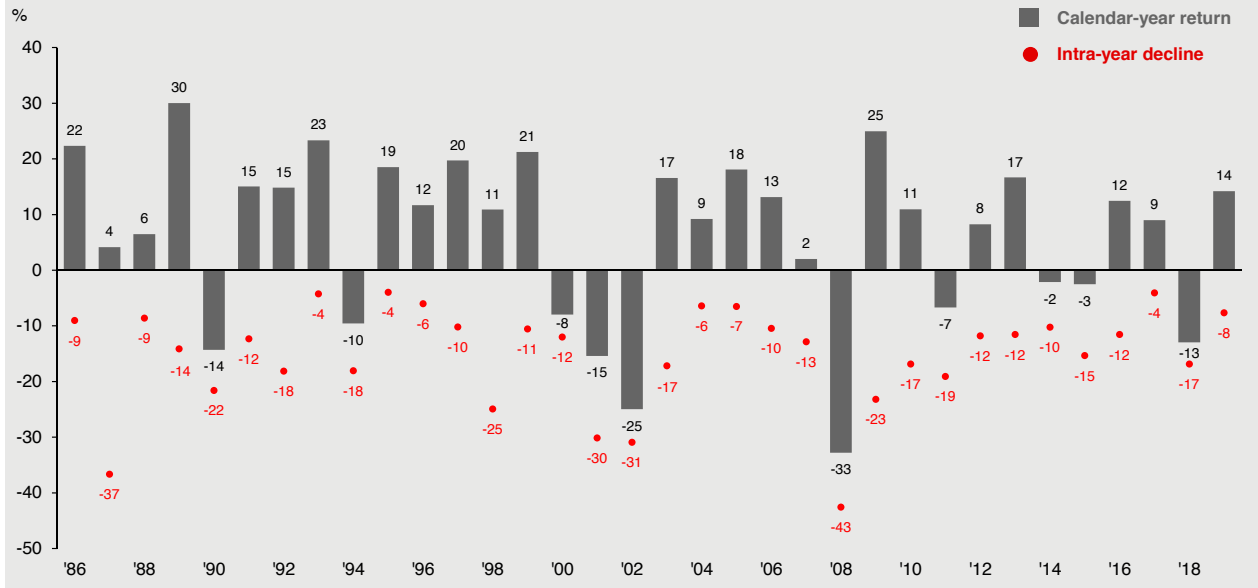
The lesson is, don't panic: more often than not a stock market pullback is an opportunity, not a reason to sell.

Annual returns and intra-year declines

GTM - UK

FTSE All-Share intra-year declines vs. calendar-year returns

Despite average intra-year drops of 15.2% (median 12.2%), annual returns are positive in 24 of 34 years



Source: FTSE, Refinitiv Datastream, J.P. Morgan Asset Management. Returns shown are price returns in GBP. 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 2019. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 December 2019.

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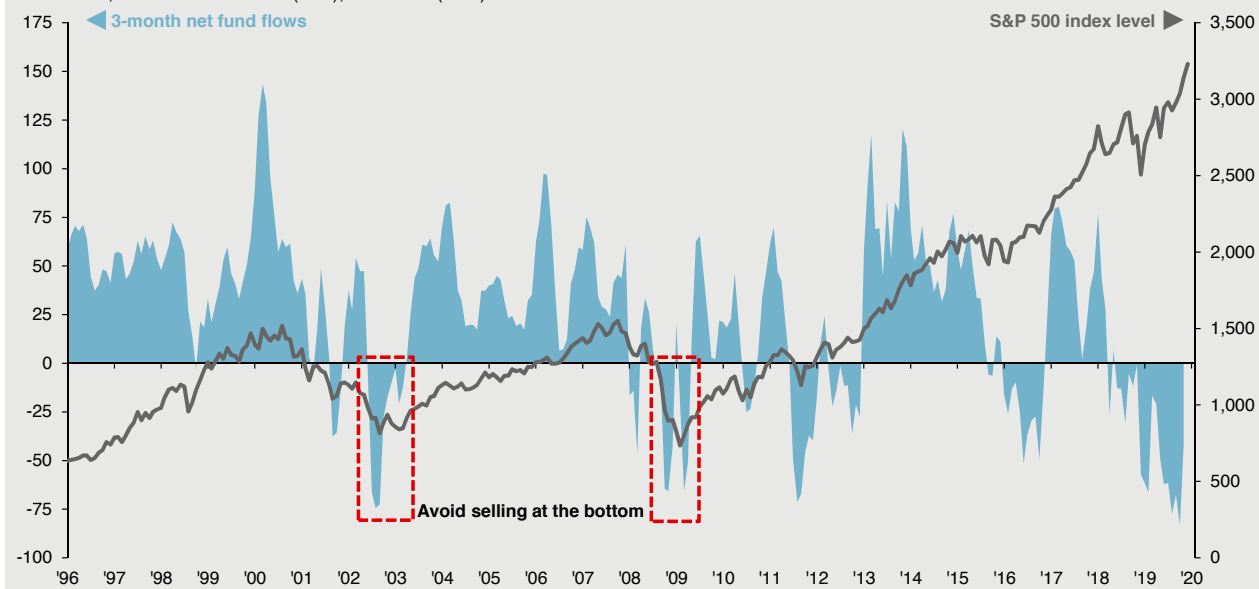
TIMING THE MARKET IS DIFFICULT (PART 1)

Patience is a virtue

Selling after the market has experienced a large fall is normally the wrong strategy. However, resisting the urge to panic following a market decline can be difficult. People tend to sell after equities have already fallen. As the chart shows, large outflows often occur when stock prices are already close to a trough, meaning investors who sell lock in their losses and miss out on the subsequent recovery.

US mutual fund and ETF flows and S&P 500

USD billions, three-month net flows (LHS); index level (RHS)



Source: FactSet, Investment Company Institute, J.P. Morgan Asset Management. Fund flows are US long-term equity fund flows with ETF flows included from 2006 onwards. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 December 2019.

6 TIMING THE MARKET IS DIFFICULT (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. It's important to keep a long-term perspective.

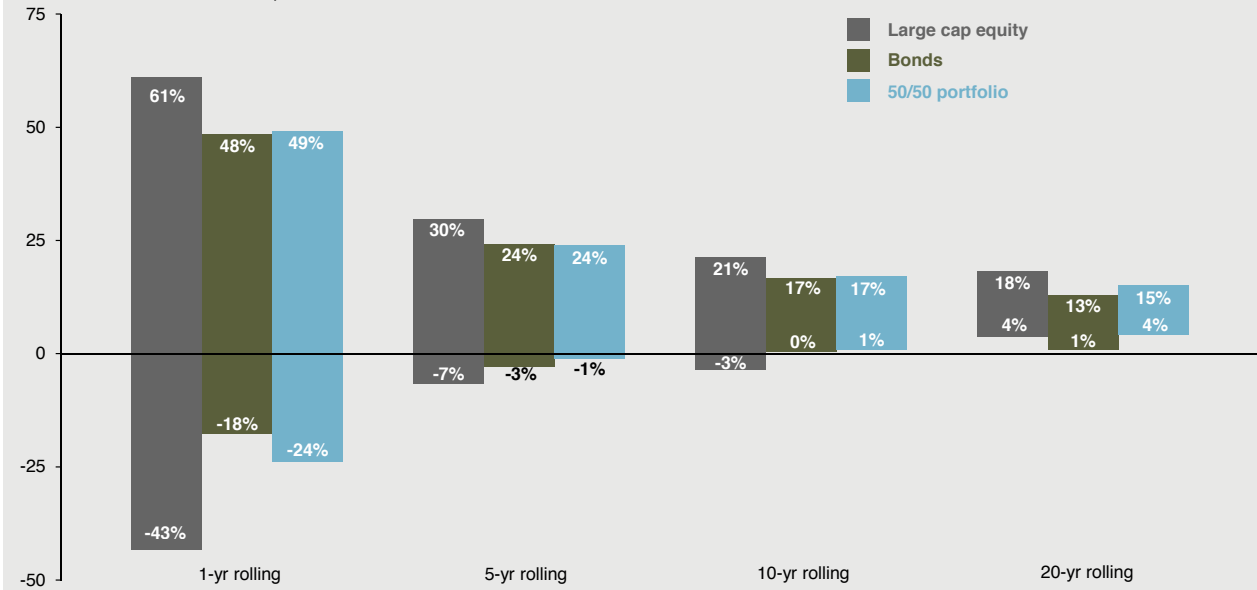
This chart illustrates this concept. Investors should not necessarily expect the same rates of return in the future as we have seen in the past. But a diversified blend of stocks and bonds has not suffered a negative return over any 10-year rolling period, despite the great swings in annual returns we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

US asset returns by holding period

GTM - UK

Range of equity and bond total returns

%, annualised total returns, 1950-present



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 2019.

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7 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 around 8% per year over this time period. The diversified portfolio has also provided a much smoother ride for investors than investing in equities alone, as shown by its position in the chart's volatility column.

Asset class returns (GBP)

GTM - UK

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Ann. return since '08	Vol.
Govt bonds	52.6%	EME	REITs	EMD	REITs	DM Equities	REITs	REITs	HY bonds	EME	Govt bonds	DM Equities	REITs	EME
	52.6%	59.4%	31.6%	9.3%	14.9%	25.0%	35.1%	8.2%	36.3%	25.8%	5.8%	23.4%	12.0%	24.4%
IG bonds	26.5%	HY bonds	EME	REITs	HY bonds	Portfolio	EMD	EMD	Cmdty	DM Equities	IG bonds	REITs	HY bonds	Govt bonds
	26.5%	41.9%	22.9%	8.1%	14.3%	5.9%	12.1%	7.1%	33.3%	12.4%	2.4%	23.1%	11.1%	15.6%
EMD	23.3%	DM Equities	Cmdty	Govt bonds	EME	HY bonds	DM Equities	DM Equities	EME	Portfolio	HY bonds	EME	EMD	Cmdty
	23.3%	16.4%	20.5%	7.1%	13.4%	5.3%	12.1%	5.5%	33.1%	5.6%	1.9%	14.3%	10.3%	14.7%
Cash	6.9%	Portfolio	HY bonds	IG bonds	EMD	Hedge Funds	IG bonds	HY bonds	EMD	HY bonds	REITs	Portfolio	DM Equities	REITs
	6.9%	15.7%	18.4%	5.1%	13.3%	4.7%	9.6%	2.9%	31.4%	0.9%	1.9%	12.5%	9.8%	14.2%
Hedge Funds	6.3%	EMD	DM Equities	HY bonds	DM Equities	REITs	Portfolio	Govt bonds	REITs	Cash	EMD	EMD	Portfolio	HY bonds
	6.3%	14.1%	15.9%	3.9%	11.4%	1.3%	8.7%	2.3%	30.4%	0.4%	1.3%	10.0%	8.0%	13.3%
Portfolio	2.5%	REITs	EMD	Cash	Portfolio	Cash	HY bonds	IG bonds	DM Equities	EMD	Cash	HY bonds	IG bonds	DM Equities
	2.5%	13.5%	15.6%	1.2%	7.6%	0.5%	6.2%	2.0%	29.0%	-0.1%	0.9%	8.2%	7.8%	12.9%
HY bonds	1.2%	IG bonds	Portfolio	Portfolio	IG bonds	IG bonds	Hedge Funds	Hedge Funds	Portfolio	REITs	Portfolio	IG bonds	Govt bonds	EMD
	1.2%	6.1%	14.8%	-1.2%	6.3%	-1.5%	5.6%	1.9%	27.0%	-0.2%	-0.5%	7.2%	6.2%	10.1%
Cmdty	-10.9%	Cmdty	Govt bonds	DM Equities	Cash	EME	Govt bonds	Portfolio	IG bonds	IG bonds	Hedge Funds	Hedge Funds	EME	IG bonds
	-10.9%	5.9%	9.2%	-4.3%	1.4%	-4.1%	5.4%	1.4%	24.4%	-0.4%	-0.9%	4.5%	5.4%	8.4%
REITs	-13.2%	Cash	IG bonds	Hedge Funds	Hedge Funds	Govt bonds	EME	Cash	Hedge Funds	Govt bonds	DM Equities	Cmdty	Hedge Funds	Portfolio
	-13.2%	2.2%	9.2%	-8.2%	-1.0%	4.3%	0.7%	2.2%	22.3%	-2.0%	3.2%	3.5%	3.2%	7.8%
DM Equities	-17.4%	Hedge Funds	Hedge Funds	Cmdty	Govt bonds	EMD	Cash	EME	Govt bonds	Hedge Funds	Cmdty	Govt bonds	Cash	Hedge Funds
	-17.4%	1.0%	8.5%	-12.7%	-2.6%	-8.3%	0.8%	-9.7%	21.3%	-3.2%	-5.7%	1.5%	1.4%	7.2%
EME	-35.2%	Govt bonds	Cash	EME	Cmdty	Cmdty	Cmdty	Cmdty	Cash	Cmdty	EME	Cash	Cmdty	Cash
	-35.2%	-8.6%	0.9%	-17.6%	-5.4%	-11.2%	-11.8%	-20.3%	0.7%	-7.1%	-8.9%	1.0%	-2.8%	1.7%

Investing principles

Source: Bloomberg Barclays, FTSE, J.P. Morgan Economic Research, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Annualised return covers the period from 2008 to 2019. 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 are total return, in GBP, and are unhedged. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 December 2019.

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A series of horizontal dotted lines for taking notes.



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