

# 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.

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# PRINCIPLES FOR SUCCESSFUL LONG-TERM INVESTING

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- 3 COMPOUNDING WORKS MIRACLES
- 4 VOLATILITY IS NORMAL
- 5 STAYING INVESTED MATTERS
- 6 DIVERSIFICATION WORKS



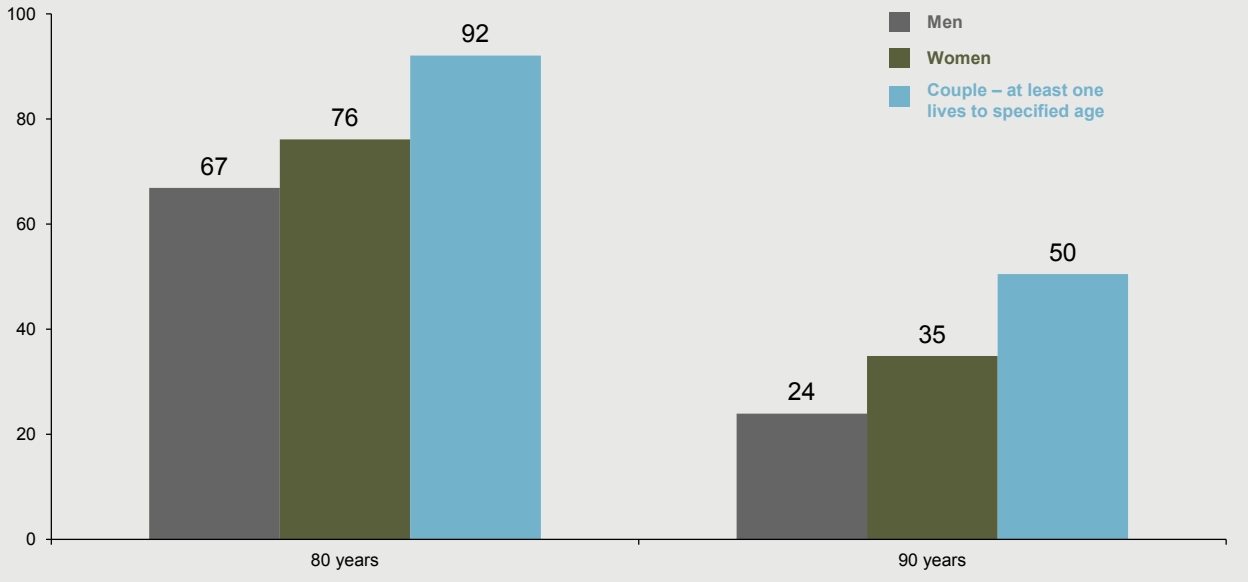
## INVEST FOR THE FUTURE

### **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.

**Probability of reaching ages 80 and 90**

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



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.

Investing principles

## 2

### CASH IS RARELY KING

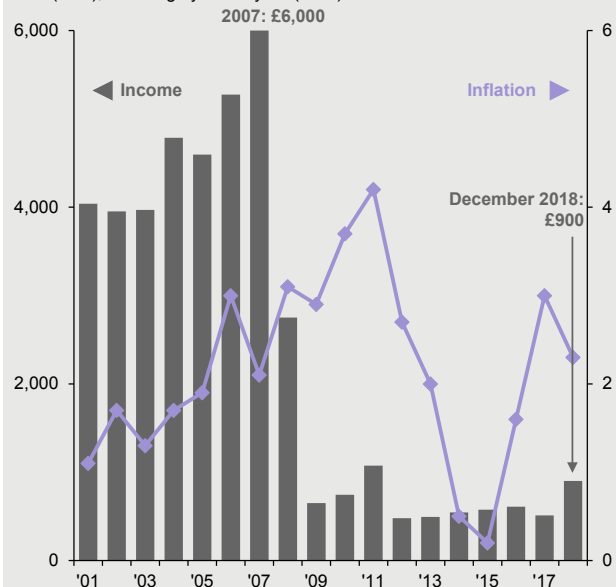
LEFT: **Cash pays less**

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.

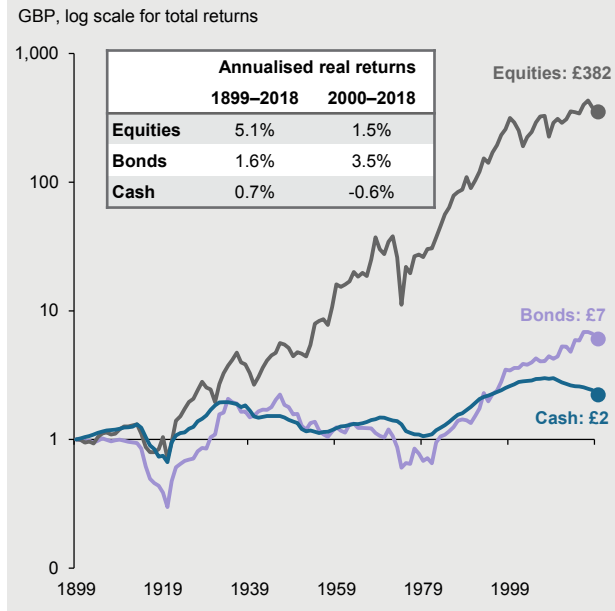
RIGHT: **Cash underperforms over the long term**

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.

**Income generated by £100,000 in a three-month bank deposit**  
 GBP (LHS); % change year on year (RHS)



**Total return of £1 in real terms**



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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.



## 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**

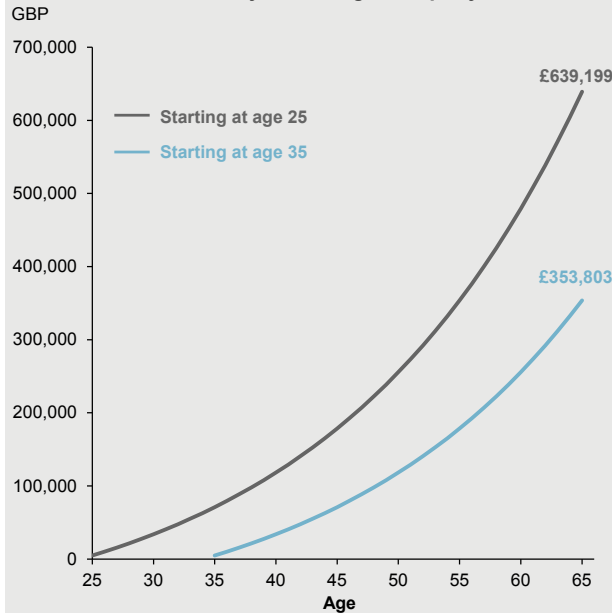
You can make even better use of the magic of compounding if you reinvest the income from your investments to boost your portfolio value further. The difference between reinvesting—and not reinvesting—the income from your investments over the long term can be enormous.



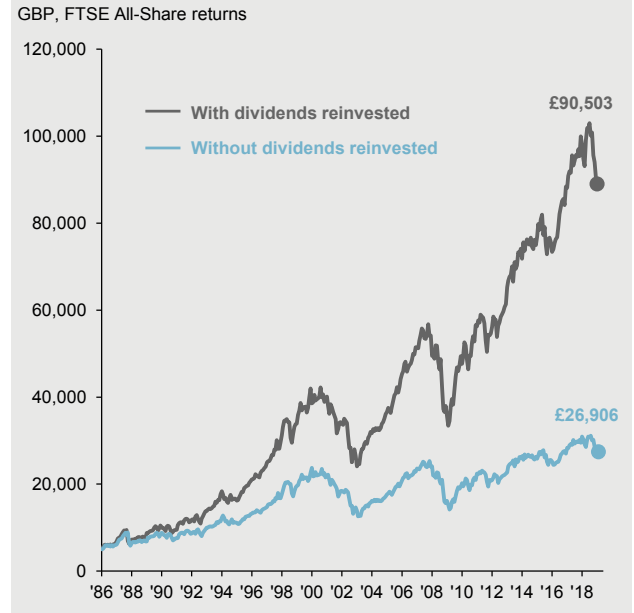
## The power of compounding

GTM - UK

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



### £5,000 investment with/without income reinvested



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.

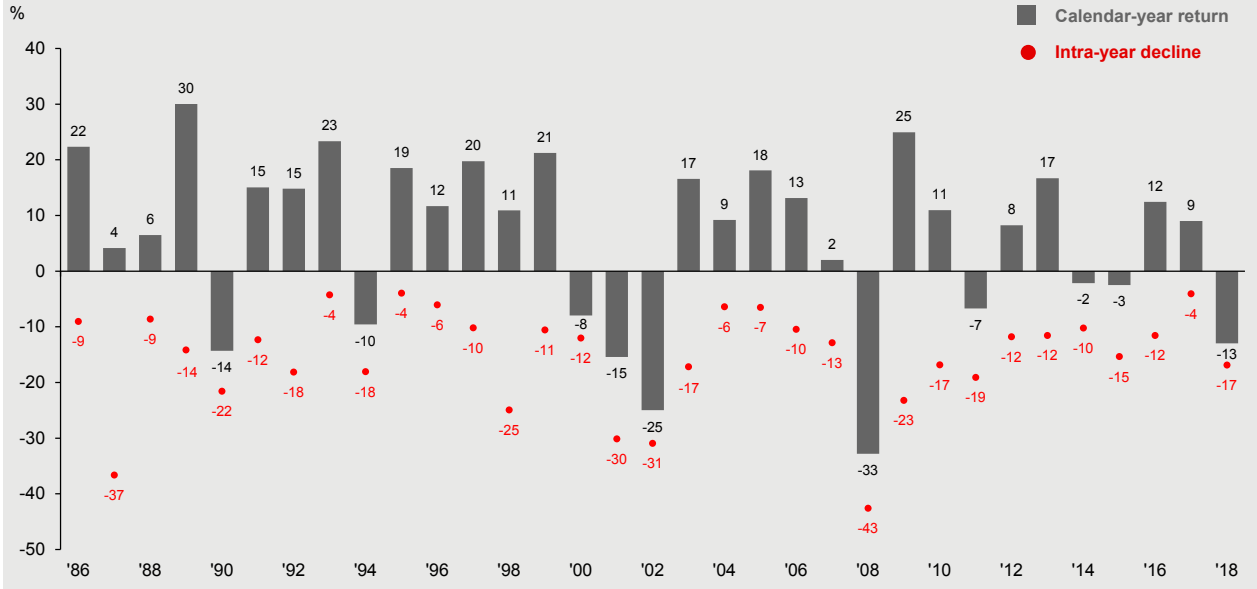
The lesson is, don't panic: more often than not a stock market pullback is an opportunity, not a reason to sell.

## Annual returns and intra-year declines

GTM - UK

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

Despite average intra-year drops of 15.4% (median 12.3%), annual returns are positive in 23 of 33 years



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.

## 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.

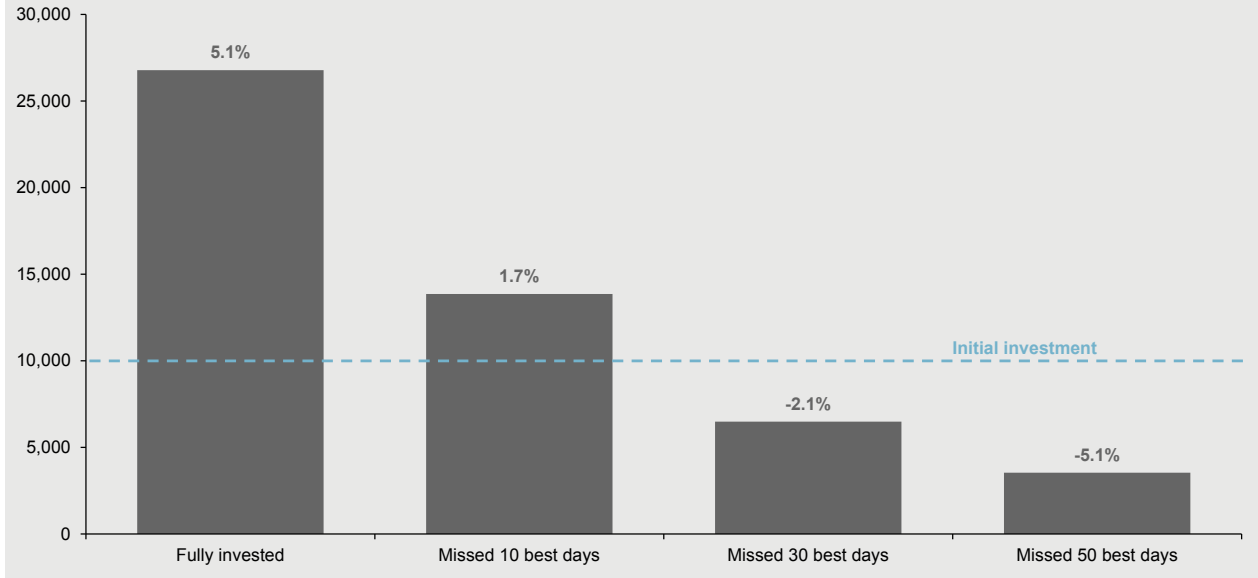
This chart is a sobering reminder of the potential costs of trying to time the market. Even missing a handful of days in the market can have a devastating effect on an investor's total returns.

## Impact of being out of the market

GTM - UK

### Returns of FTSE All-Share

GBP, value of a £10,000 investment from 1999 to 2018 with annualised total return (%)



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)

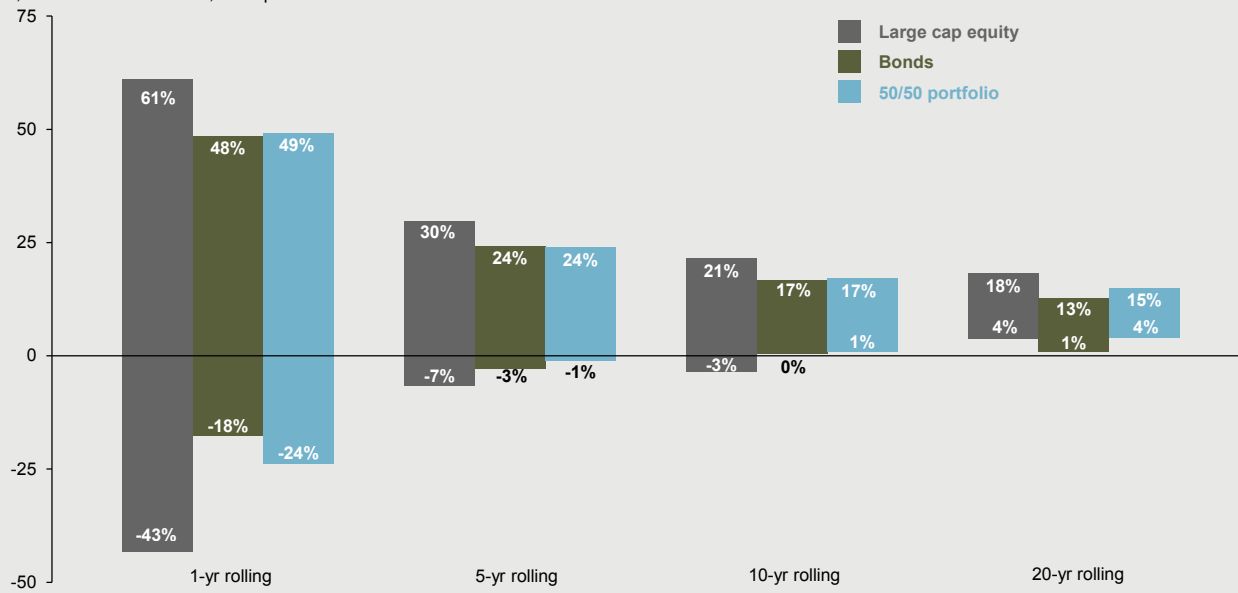
### **Good things come to those who wait**

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.

## 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 2018.

## 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)

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

Investing principles

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; Cmnty: 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*. Data as of 31 December 2018.

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