Principles for successful long-term investing

Using Market Insights to achieve better client outcomes

J.P.Morgan
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 TOWARD TOMORROW'S GOALS.

YOU WILL FIND SLIDES FROM OUR INDUSTRY-LEADING *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

LEFT: **We are living longer**

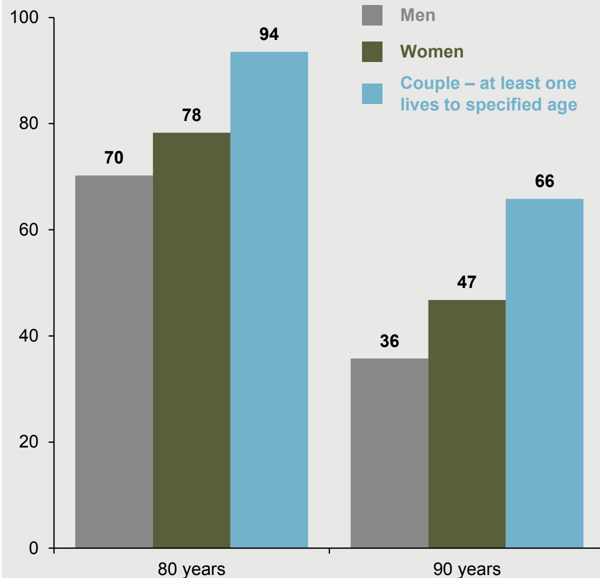
Thanks to advances in medicine and healthier lifestyles, people are living longer lives. This chart shows the probability of reaching ages 80 or 90 for someone who is 65 today. A 65-year-old couple might be surprised to learn that there is a 66% probability that at least one of them will live another 25 years, reaching age 90.

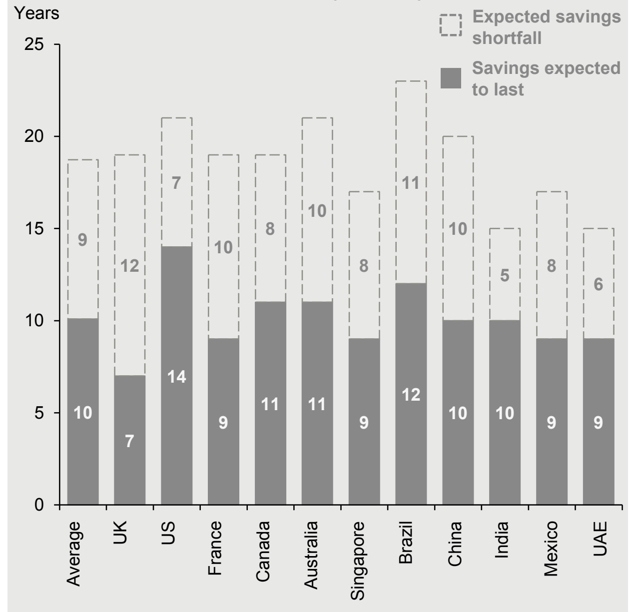
RIGHT: **Many of us have not saved enough; invest for the future**

Studies reveal that individuals do not feel financially prepared for retirement. We should all develop a financial plan for the future, investing early and often and in a disciplined way.

Life expectancy and pension shortfall

GTM – UK





Source: (Left) ONS 2010-2012 Life Tables, J.P. Morgan Asset Management. (Right) "Life after work" study by HSBC, J.P. Morgan Asset Management. Figures represent the expected portion of retirement that will not be covered by retirement savings based on survey data. *Guide to the Markets - UK.* Data as of 31 December 2015.

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2 CASH IS RARELY KING

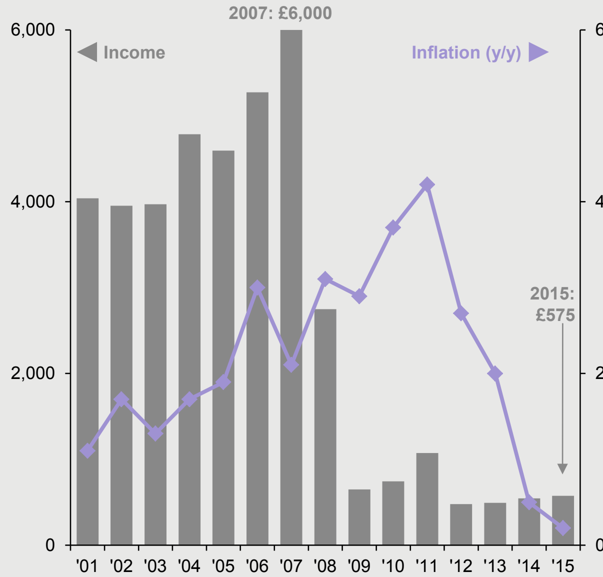
LEFT: **Cash pays less**

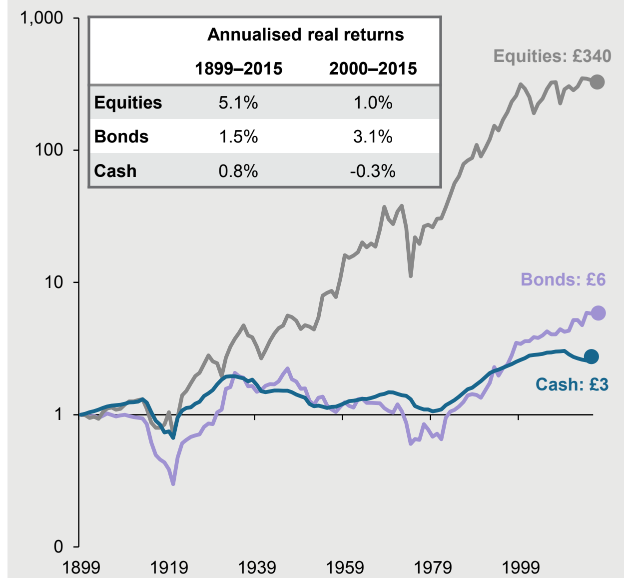
Investors often think of cash as a safe haven in volatile times, or even as a source of income. But the ongoing era of ultra-low interest rates has depressed the return available on cash to near-zero—leaving cash savings vulnerable to erosion by inflation over time. With interest rates expected to remain 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 parked their cash in the bank have missed out on the impressive long-term performance of equities and fixed income.

Cash investments





Annualised real returns	1899–2015	2000–2015
Equities	5.1%	1.0%
Bonds	1.5%	3.1%
Cash	0.8%	-0.3%

Source: (Left) Bloomberg, ONS, J.P. Morgan Asset Management. (Right) Dimson, Marsh and Staunton ABN AMRO/LBS Global Investment Returns Yearbook 2008, FactSet, 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). *Guide to the Markets - UK*. Data as of 31 December 2015.

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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 at age 25 and investing £5,000 per year in an investment that grows at 6% a year would leave you with over £400,000 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 grow the starting value even more each year. The difference between reinvesting the income from your investments and not over the long term can be enormous.

The power of compounding

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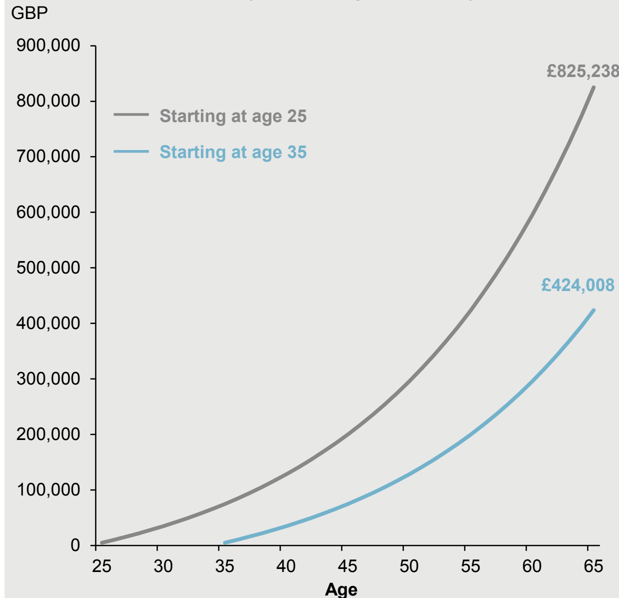
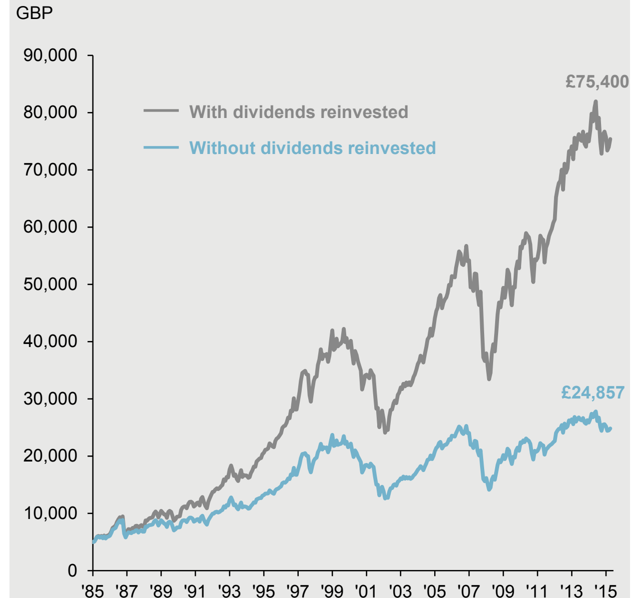
£5,000 invested annually with 6% growth per year

GBP



A one-off £5,000 investment with/without income reinvested

GBP



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Source: (Left) J.P. Morgan Asset Management. For illustrative purposes only, assumes all income re-invested, 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.
Guide to the Markets - UK. Data as of 31 December 2015.

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4 VOLATILITY IS NORMAL; DON'T PANIC

Keep your head when all about you are losing theirs

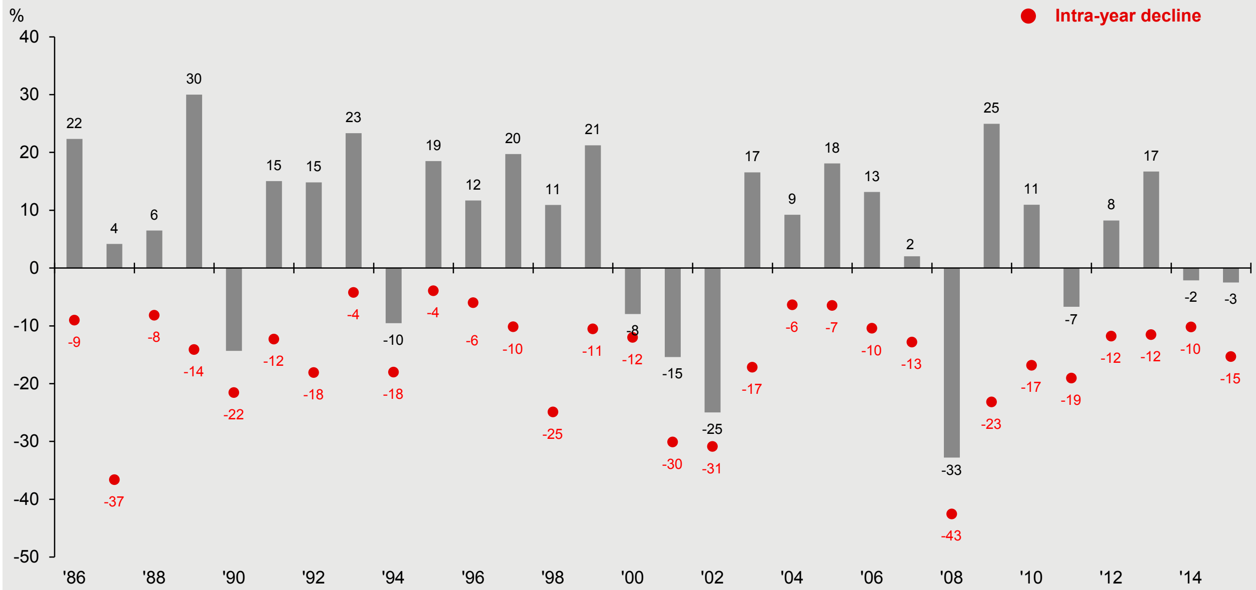
Every year has its rough patches. The red dots on this chart represent the maximum intra-year equity decline in every calendar year, or the difference between the highest and lowest point reached by the market in those 12 months. It is hard to predict these pullbacks, but double-digit pullbacks in markets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

It's important to have a plan for when the going gets tough, instead of reacting emotionally. The grey bars represent the full-year market index returns from 1 January to 31 December. They show that, despite the pullbacks every year, the equity market has gone on 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



Source: FactSet, FTSE, 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 2015. *Guide to the Markets - UK*. Data as of 31 December 2015.

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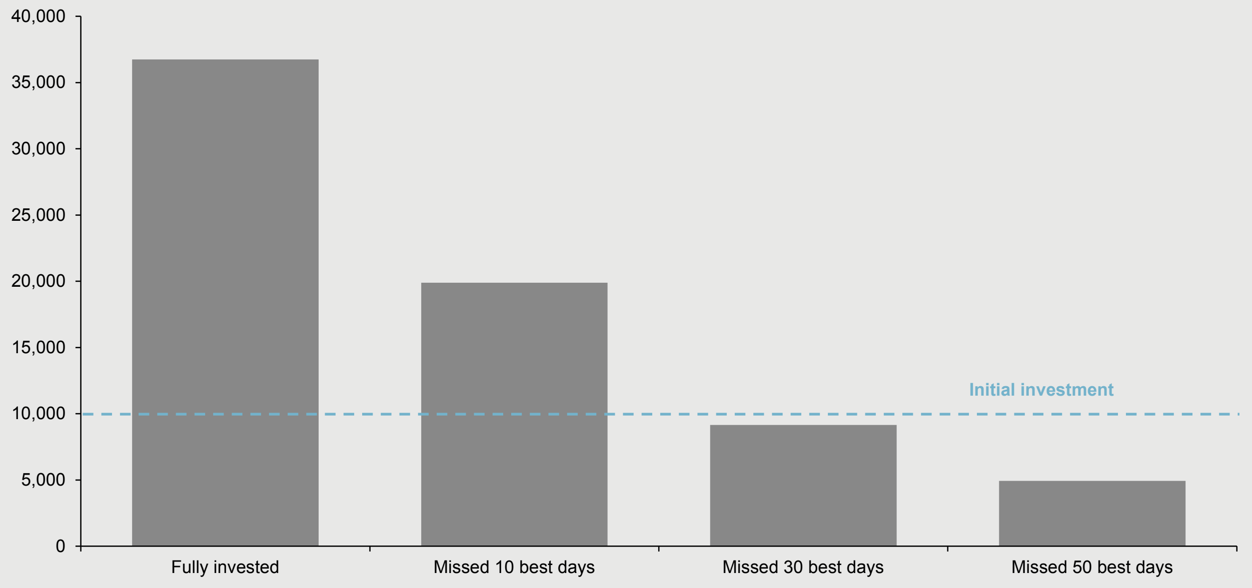
5 STAYING INVESTED MATTERS

Don't put your emotions in charge of your investments

Market timing can be a dangerous habit. Pullbacks are hard to time 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



Source: FactSet, FTSE, J.P. Morgan Asset Management. For illustrative purposes only. Assumes all income is re-invested; 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 2015.

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5 STAYING INVESTED MATTERS (PART 2)

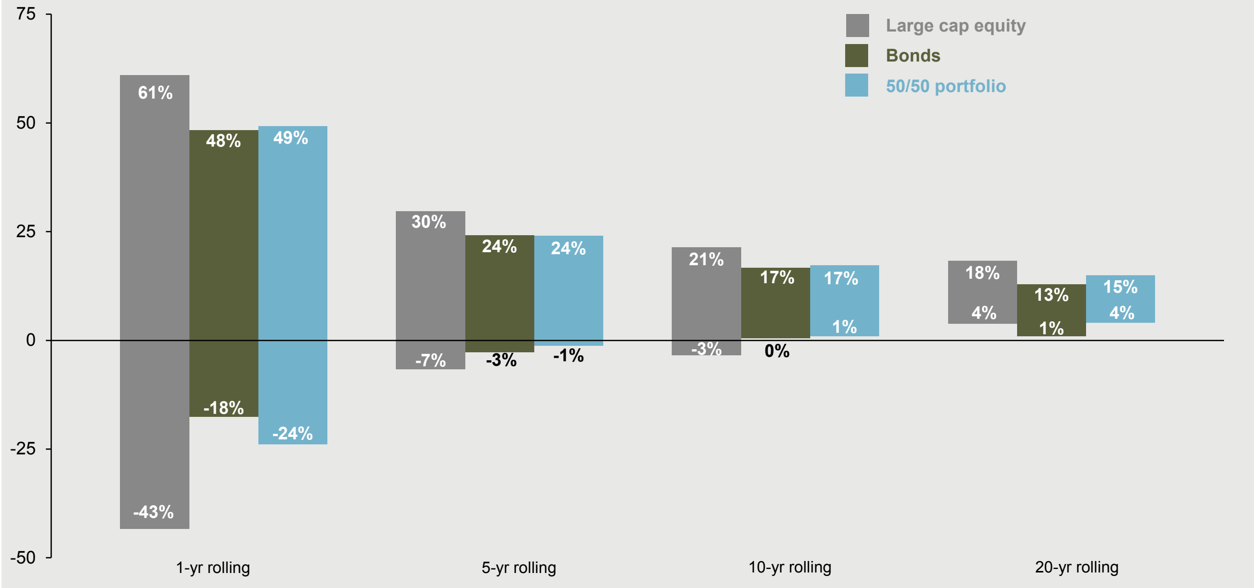
Good things come to those who wait

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 the concept. Investors should not necessarily expect the same rates of return in the future as we have seen in the past. But a blend of stocks and bonds has not suffered a negative return over any ten-year rolling period in the past 65 years, despite the great swings in annual returns we have seen since 1950.

US asset returns by holding period

GTM – UK



Source: Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are per annum and are calculated based on monthly returns from 1950 to December 2015 and include dividends. *Guide to the Markets - UK*. Data as of 31 December 2015.

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6 DIVERSIFICATION WORKS

Don't put all your eggs in one basket

The last ten 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 were cash and commodities. Meanwhile, a well-diversified portfolio including stocks, bonds and some other asset classes returned 6.8% per year over this time period. The diversified portfolio also provided a much smoother ride for investors than investing in just equities.

Asset class returns (GBP)

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	10-yr ann.	Vol.
REITS 18.2%	EME 37.5%	Govt bonds 52.6%	EME 59.4%	REITS 31.6%	EMD 10.0%	REITS 14.9%	DM Equities 25.0%	REITS 35.1%	REITS 8.2%	EMD 9.7%	EME 26.1%
EME 16.3%	Cmdty 14.7%	IG bonds 26.5%	HY bonds 41.9%	EME 22.9%	REITS 8.1%	HY bonds 14.4%	Hedge Funds 9.6%	EMD 12.8%	EMD 7.7%	REITS 9.4%	Govt bonds 16.7%
Hedge Funds 13%	Hedge Funds 12.6%	EMD 25.0%	Hedge Funds 18.4%	Cmdty 20.5%	Govt bonds 7.1%	EME 13.4%	Portfolio 6.0%	DM Equities 12.1%	DM Equities 5.5%	HY bonds 9.3%	REITS 16.3%
DM Equities 5.8%	Portfolio 8.9%	Cash 6.9%	Portfolio 16.5%	HY bonds 18.4%	IG bonds 5.1%	EMD 12.9%	HY bonds 5.3%	IG bonds 9.6%	HY bonds 2.9%	DM Equities 7.8%	Cmdty 12.8%
Cash 4.8%	Govt bonds 8.7%	Portfolio 1.3%	DM Equities 16.4%	DM Equities 15.9%	HY bonds 3.9%	DM Equities 11.4%	REITS 1.3%	Portfolio 8.7%	Govt bonds 2.3%	Portfolio 6.8%	HY bonds 12.2%
Portfolio 2.8%	DM Equities 7.7%	HY bonds 1.2%	REITS 13.5%	EMD 15.3%	Cash 1.2%	Portfolio 8.0%	Cash 0.5%	HY bonds 6.2%	IG bonds 2.0%	IG bonds 6.1%	DM Equities 11.2%
HY bonds -0.3%	Cash 6.1%	Cmdty -12.5%	EMD 12.1%	Portfolio 14.9%	Portfolio -0.9%	Hedge Funds 7.5%	IG bonds -1.5%	Govt bonds 5.4%	Portfolio 1.3%	Govt bonds 5.3%	Hedge Funds 10.0%
EMD -3.1%	IG bonds 4.9%	REITS -13.2%	Cmdty 7.3%	Hedge Funds 10.6%	Hedge Funds -2.9%	IG bonds 6.3%	EME -4.1%	EME 4.3%	Cash 0.7%	Hedge Funds 4.8%	EMD 9.3%
IG bonds -5.9%	EMD 4.7%	DM Equities -17.4%	IG bonds 6.1%	Govt bonds 9.2%	DM Equities -4.3%	Cash 1.4%	Govt bonds -6.1%	Hedge Funds 4.1%	Hedge Funds -0.8%	EME 4.5%	IG bonds 8.1%
Govt bonds -6.6%	HY bonds 1.4%	Hedge Funds -18.3%	Cash 2.2%	IG bonds 9.2%	Cmdty -12.7%	Govt bonds -2.6%	EMD -10.0%	Cash 0.6%	EME -9.7%	Cash 2.6%	Portfolio 5.5%
Cmdty -10.4%	REITS -19.2%	EME -35.2%	Govt bonds -8.6%	Cash 1.0%	EME -17.6%	Cmdty -5.4%	Cmdty -11.2%	Cmdty -11.8%	Cmdty -20.3%	Cmdty -7.1%	Cash 2.3%

Investing principles

Source: Barclays, Bloomberg, FactSet, FTSE, MSCI, J.P. Morgan Economic Research, J.P. Morgan Asset Management. Annualised return covers the period from 2006 to 2015. Vol. is the standard deviation of annual returns. Returns are unhedged, total return, in GBP. Govt bonds: Barclays Global Aggregate Government Treasuries; HY bonds: Barclays Global High Yield; EMD: JP Morgan EMBI+; IG bonds: Barclays Global Aggregate – Corporates; Cmdty: Bloomberg UBS Commodity; REITS: FTSE NAREIT All REITS; DM Equities: MSCI World; Hedge funds: Credit Suisse/Tremont Hedge Fund; 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. *Guide to the Markets - UK*. Data as of 31 December 2015.

NOTES

FOR MORE INFORMATION ABOUT THE MARKET INSIGHTS PROGRAMME, INCLUDING ACCESS TO THE ENTIRE GUIDE TO THE MARKETS, PLEASE VISIT JPMORGAN.AM/GTMUK

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