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

1. PLAN ON LIVING A LONG TIME
2. CASH IS RARELY KING
3. COMPOUNDING WORKS MIRACLES
4. RETURNS AND RISKS GENERALLY GO HAND IN HAND
5. VOLATILITY IS NORMAL
6. TIMING THE MARKET IS DIFFICULT
7. 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 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.
**Life expectancy**

**Probability of reaching ages 80 and 90**

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

- **Men**
  - 80 years: 67%
  - 90 years: 24%

- **Women**
  - 80 years: 76%
  - 90 years: 35%

- **Couple – at least one lives to specified age**
  - 80 years: 92%
  - 90 years: 51%


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

EUR (LHS); % change year on year (RHS)

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

EUR, thousands

Source: (Left) Bloomberg, Eurostat, J.P. Morgan Asset Management. Inflation is the percentage change year on year for the eurozone harmonised index of 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 - Europe. Data as of 31 December 2019.
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

**Total return of $1 in real terms**
USD, log scale, total returns

<table>
<thead>
<tr>
<th>Annualised real returns</th>
<th>1900–2019</th>
<th>2000–2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>6.7%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Bonds</td>
<td>2.2%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Cash</td>
<td>0.6%</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

Equities: $2.448
Bonds: $14
Cash: $2

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.

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

**€5.000 invested annually with 5% growth per year**

- **Starting at age 25**
- **Starting at age 35**

EUR

**€5.000 investment with/without income reinvested**

- **With dividends reinvested**
- **Without dividends reinvested**

EUR, MSCI Europe 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, MSCI, J.P. Morgan Asset Management. Based on MSCI Europe Index and assumes no charges. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - Europe.* Data as of 31 December 2019.
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.
Asset class risk-return trade-off

Historic risk vs. return for selected asset classes
% annualized return 2004 – 2019 in EUR


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.
MSCI Europe intra-year declines vs. calendar-year returns

Despite average intra-year drops of 15.2% (median 12.0%), annual returns are positive in 31 of 40 years

% Calendar-year return

Intra-year decline

Source: MSCI, Refinitiv Datastream, J.P Morgan Asset Management. Returns are local currency price returns. 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 1980 to 2019. Past performance is not a reliable indicator of current and future results. Guide to the Markets - Europe. Data as of 31 December 2019.
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)

**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

Range of equity and bond total returns

%, annualised total returns, 1950-present

Investing principles

Large cap equity
Bonds
50/50 portfolio

1-yr rolling
5-yr rolling
10-yr rolling
20-yr rolling

61% 48% 49%
30% 24% 24%
21% 17% 17%
18% 13% 15%

-43% -18% -24%
-7% -3% -1%
-3% 0% 1%
4% 1% 4%

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 - Europe. Data as of 31 December 2019.
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 close to 7% 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.
### Investing principles

Performance is not a reliable indicator of current and future results. Guide to the Markets - Europe.

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% EMD
- 5% commodities
- 5% cash
- 5% REITS
- 5% hedge funds

All returns are total return, in EUR, and are unhedged. Past performance is not a reliable indicator of current and future results. Guide to the Markets - Europe. Data as of 31 December 2019.

### Asset class returns (EUR)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Govt bonds</td>
<td>15.9%</td>
<td>EME 73.5%</td>
<td>REITs 36.4%</td>
<td>EMD 12.1%</td>
<td>REITs 18.3%</td>
<td>DM Equities 21.9%</td>
<td>REITs 44.8%</td>
<td>REITs 13.9%</td>
<td>HY bonds 17.7%</td>
<td>EME 21.0%</td>
<td>Govt bonds 4.6%</td>
<td>DM Equities 30.8%</td>
<td>REITs 10.6%</td>
<td>EME 28.6%</td>
</tr>
<tr>
<td>Cash</td>
<td>5.7%</td>
<td>HY bonds 54.4%</td>
<td>BME 27.5%</td>
<td>REITs 10.9%</td>
<td>HY bonds 17.8%</td>
<td>Portfolio 3.3%</td>
<td>BME 20.9%</td>
<td>EMD 12.8%</td>
<td>Cmtdy 15.1%</td>
<td>DM Equities 8.1%</td>
<td>IG bonds 1.3%</td>
<td>REITs 30.4%</td>
<td>HY bonds 9.8%</td>
<td>REITs 20.1%</td>
</tr>
<tr>
<td>IG bonds</td>
<td>-3.9%</td>
<td>DM Equities 26.7%</td>
<td>Cmdty 24.9%</td>
<td>Govt bonds 9.9%</td>
<td>HY bonds 16.8%</td>
<td>DM Equities 2.7%</td>
<td>DM Equities 20.1%</td>
<td>DM Equities 11.0%</td>
<td>EME 14.9%</td>
<td>Portfolio 1.7%</td>
<td>HY bonds 0.8%</td>
<td>EME 21.1%</td>
<td>EMD 9.0%</td>
<td>HY bonds 17.5%</td>
</tr>
<tr>
<td>EMD</td>
<td>-6.3%</td>
<td>Portfolio 25.4%</td>
<td>HY bonds 22.8%</td>
<td>IG bonds 7.8%</td>
<td>EMD 16.7%</td>
<td>Hedge Funds 2.1%</td>
<td>IG bonds 17.5%</td>
<td>HY bonds 8.4%</td>
<td>EMD 13.5%</td>
<td>Cash 0.2%</td>
<td>REITs 0.7%</td>
<td>Portfolio 18.8%</td>
<td>DM Equities 8.5%</td>
<td>DM Equities 17.4%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>-19.3%</td>
<td>EMD 24.2%</td>
<td>DM Equities 20.1%</td>
<td>DM Equities 6.6%</td>
<td>Cash 0.2%</td>
<td>Portfolio 16.2%</td>
<td>Govt bonds 7.7%</td>
<td>REITs 12.6%</td>
<td>HY bonds -3.0%</td>
<td>EMD 0.2%</td>
<td>EMD 16.5%</td>
<td>Portfolio 6.8%</td>
<td>Cmtdy 15.5%</td>
<td></td>
</tr>
<tr>
<td>Portfolio</td>
<td>-20.9%</td>
<td>REITs 23.5%</td>
<td>EMD 19.8%</td>
<td>Cash 1.7%</td>
<td>Portfolio 10.7%</td>
<td>REITs -1.3%</td>
<td>Hy bonds 13.9%</td>
<td>IG bonds 7.4%</td>
<td>DM Equities 11.4%</td>
<td>EMD -4.0%</td>
<td>Cash -0.3%</td>
<td>HY bonds 14.6%</td>
<td>IG bonds 6.3%</td>
<td>Portfolio 11.7%</td>
</tr>
<tr>
<td>HY bonds</td>
<td>-23.1%</td>
<td>IG bonds 15.5%</td>
<td>Portfolio 19.9%</td>
<td>IG bonds 9.5%</td>
<td>IG bonds -4.0%</td>
<td>Hedge Funds 13.2%</td>
<td>Hedge Funds 7.3%</td>
<td>Portfolio 10.3%</td>
<td>REITs -4.0%</td>
<td>Portfolio -1.6%</td>
<td>IG bonds 13.6%</td>
<td>Govt bonds 4.9%</td>
<td>EMD 4.9%</td>
<td></td>
</tr>
<tr>
<td>Cmtdy</td>
<td>-32.3%</td>
<td>Cmtdy 15.2%</td>
<td>Govt bonds 13.3%</td>
<td>DM Equities -1.8%</td>
<td>DM Equities 1.9%</td>
<td>EME -6.5%</td>
<td>Govt bonds 13.0%</td>
<td>Portfolio 6.4%</td>
<td>IG bonds 7.4%</td>
<td>IG bonds -4.2%</td>
<td>Hedge Funds -2.0%</td>
<td>Hedge Funds 10.7%</td>
<td>EME 4.1%</td>
<td>Hedge Funds 9.2%</td>
</tr>
<tr>
<td>REITs</td>
<td>-34.1%</td>
<td>Hedge Funds 9.9%</td>
<td>IG bonds 13.2%</td>
<td>Hedge Funds -5.8%</td>
<td>Govt bonds 1.2%</td>
<td>Govt bonds 6.4%</td>
<td>Govt bonds 11.8%</td>
<td>Cash 0.1%</td>
<td>Hedge Funds 5.6%</td>
<td>Govt bonds -5.8%</td>
<td>DM Equities -3.6%</td>
<td>Cmtdy 9.7%</td>
<td>Cmtdy 2.0%</td>
<td>IG bonds 7.5%</td>
</tr>
<tr>
<td>DM Equities</td>
<td>-37.2%</td>
<td>Cash 2.3%</td>
<td>Hedge Funds 12.5%</td>
<td>Cmtdy -10.4%</td>
<td>Govt bonds 0.3%</td>
<td>EME -3.0%</td>
<td>Cash -4.9%</td>
<td>Hedge Funds -5.8%</td>
<td>DM Equities -3.6%</td>
<td>Cmtdy 9.7%</td>
<td>Cmtdy 2.0%</td>
<td>IG bonds 7.5%</td>
<td>Cash -1.0%</td>
<td>Govt bonds 7.3%</td>
</tr>
<tr>
<td>EME</td>
<td>-50.9%</td>
<td>Govt bonds -9.0%</td>
<td>Cash 1.1%</td>
<td>EME -18.4%</td>
<td>Cmtdy -2.6%</td>
<td>Cmtdy -13.4%</td>
<td>Cmtdy -6.1%</td>
<td>Cash -0.1%</td>
<td>Cmtdy -10.7%</td>
<td>EME -9.8%</td>
<td>Cash -0.3%</td>
<td>Cmtdy -4.0%</td>
<td>Cash 1.7%</td>
<td></td>
</tr>
</tbody>
</table>

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; Cmtdy: 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 Index EUR (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 EUR, and are unhedged. Past performance is not a reliable indicator of current and future results. Guide to the Markets - Europe. Data as of 31 December 2019.
FOR MORE INFORMATION ABOUT THE MARKET INSIGHTS PROGRAMME, INCLUDING ACCESS TO THE ENTIRE GUIDE TO THE MARKETS, SPEAK TO YOUR J.P. MORGAN ASSET MANAGEMENT REPRESENTATIVE.
The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions. For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not a reliable indicator of current and future results. J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at https://am.jpmorgan.com/global/privacy.

Copyright 2020 JPMorgan Chase & Co. All rights reserved.