Market Insights

Principles for successful long-term investing

Using insights to achieve better client outcomes
2024

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The economic landscape is uncertain and volatility has rocked global markets. As we plan ahead, the key to successful investing is not predicting the future; instead, it is learning from the past and understanding the present. In "Principles for Successful Long-Term Investing," we present seven time-tested strategies for guiding investors through today's challenges and toward tomorrow's goals. Inside, you will find slides from our industry-leading *Guide to the Markets* and *Guide to Retirement*. You will also find commentary providing additional perspective and suggested actions.

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Principles for successful long-term investing

1. Plan on living a long time
2. Cash isn't always king
3. Harness the power of dividends and compounding
4. Avoid emotional biases by sticking to a plan
5. Volatility is normal, so don't let it derail you
6. Diversification works
7. Staying invested matters

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1 PLAN ON LIVING A LONG TIME

and perhaps, saving and investing more

We are living longer

Life expectancies in the United States continue to increase as more people are living to older ages. For a 65-year-old couple, there is nearly an even chance that one member will live to age 90 or beyond. Individuals should plan for living well beyond the average – to age 95 or even 100 – especially those in good health and with a family history of longevity.

1 – Plan on living a long time

If you're age 65 today, the probability of living to a specific age or beyond

Group	Age	Non-smokers in excellent health	Total population average
Women	85	72%	52%
Women	90	54%	30%
Women	95	31%	11%
Women	100	13%	
Men	85	63%	39%
Men	90	43%	19%
Men	95	22%	5%
Men	100	8%	
At least one of a couple	85	90%	71%
At least one of a couple	90	73%	43%
At least one of a couple	95	46%	15%
At least one of a couple	100	19%	3%
Both members of a couple	85	46%	20%
Both members of a couple	90	23%	6%
Both members of a couple	95	7%	
Both members of a couple	100	1%	

Source (chart): Social Security Administration, Period Life Table, 2020 (published in the 2023 OASDI Trustees Report); American Academy of Actuaries and Society of Actuaries, Actuaries Longevity Illustrator, http://www.longevityillustrator.org/ (accessed January 2024), J.P. Morgan Asset Management.

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2 CASH ISN'T ALWAYS KING

and there may be better opportunities

Cash has an opportunity cost

In 2022 the Federal Reserve began raising interest rates more aggressively than at any point in decades. As a result, for the first time in a long time, cash appears to be a worthwhile “investment”. Of course, having cash on hand for day-to-day expenses and potential emergencies is an important part of financial well-being.

That said, it is also important to consider the opportunity cost of holding too much cash. Throughout history, peak cash yields have not persisted and returns from other fixed income instruments and the stock market have typically outpaced the return on cash. In other words, while cash is an important part of any portfolio, excess cash should be deployed into the market.

2 – Cash isn't always king

Investment opportunities outside of CDs

Peak 6-month certificate of deposit (CD) rate during previous rate hiking cycles and subsequent 12-month total returns

	Avg. 12mo. subsequent total return
6-month CDs	7%
Bloomberg U.S. Agg	15%
S&P 500	22%
60/40 portfolio	19%

Source: Bloomberg, FactSet, Federal Reserve, Standard and Poor's, J.P. Morgan Asset Management.
The 60/40 portfolio is 60% invested in S&P 500 Total Return Index and 40% invested in Bloomberg U.S. Aggregate Total Return Index. The analysis references the month in which the month-end 6-month CD rate peaked during previous rate hiking cycles. CD rate data prior to 2013 are sourced from the Federal Reserve, whereas data from 2013 to 2023 are sourced from Bloomberg. CD subsequent 12-month return calculation assumes reinvestment at the prevailing 6-month rate when the initial CD matures.
Guide to the Markets – U.S. Data are as of March 31, 2024.

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3 HARNESS THE POWER OF DIVIDENDS AND COMPOUNDING

and have them working for you

TOP: The power of dividends and compounding

In this simple illustration, $10,000 is invested two ways: first into the S&P 500 without reinvesting dividends, and second into the S&P 500 with dividends reinvested. Shortly after investment, there is minimal difference in performance. However, after a long enough period of time, the magnitude of outperformance of the portfolio with dividends reinvested becomes apparent.

BOTTOM: Investing in risk assets is critical

Many investors shy away from the stock market, unwilling to take on added risk. But this chart shows a staggering difference in the value of $10,000 invested in a variety of different asset classes over time, ranging from low-risk T-bills to U.S. small cap stocks.

There is no guarantee that companies will declare, continue to pay or increase dividends

3 – Harness the power of dividends and compounding

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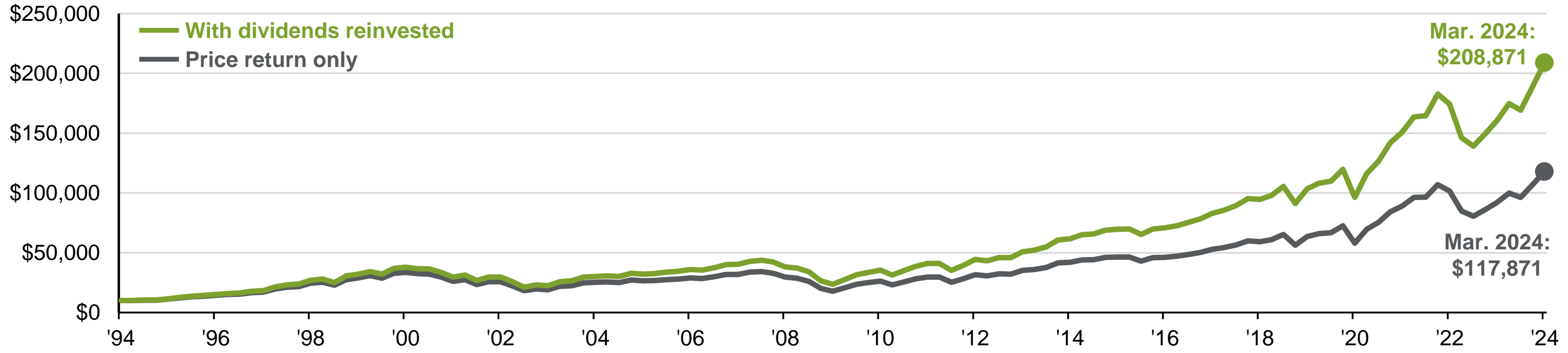
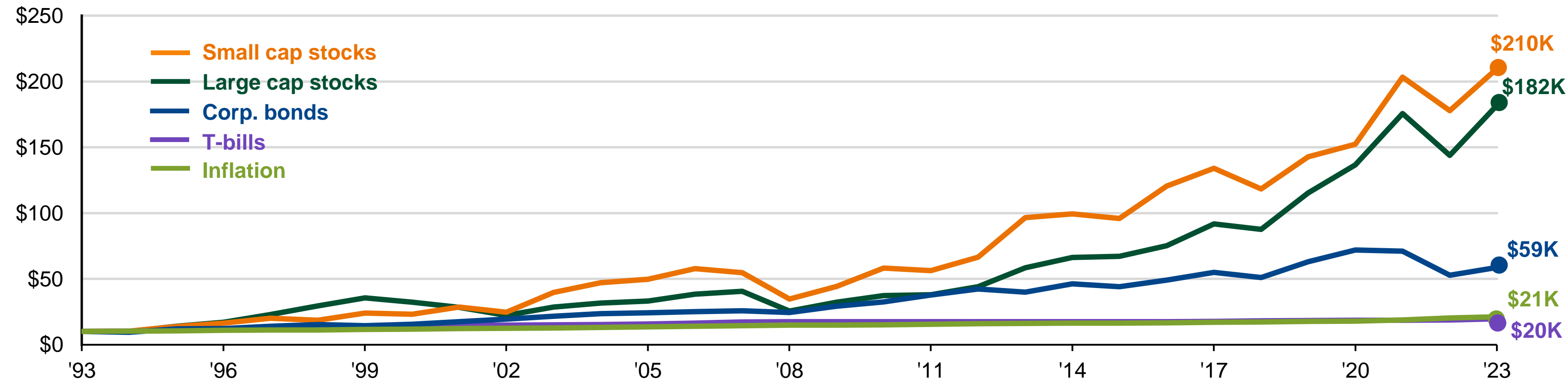
The power of compounding

S&P 500 price return versus total return, growth of $10,000, quarterly



Major asset classes versus inflation

Growth of $10,000 from 1993 – 2023, annual returns, USD thousands



Source: Bloomberg, Ibbotson, Standard & Poor's, J.P. Morgan Asset Management.
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Investing Principles

4 AVOID EMOTIONAL BIASES BY STICKING TO A PLAN

and avoid the urge to time the market

It's always darkest just before dawn

Market timing can be a dangerous habit. Sometimes, investors think they can outsmart the market; other times, fear and greed push them to make emotional, rather than logical, decisions.

When investors feel gloomy and worried about the outlook, their natural tendency is to sell risk assets in general and stocks in particular. However, history suggests that trying to time markets in this way is a mistake. Over the last 50 years, there have been nine distinct peaks and troughs in the University of Michigan Consumer Sentiment Index. On average, buying at a confidence peak yielded a return of 3.5% while buying at a trough returned 24.1%.

4 – Avoid emotional biases by sticking to a plan

Consumer Sentiment Index and subsequent 12-month S&P 500 returns

Avg. subsequent 12-mo. S&P 500 returns	
9 sentiment peaks	+3.5%
9 sentiment troughs	+24.1%

Recession

Aug. 1972: -6%

Feb. 1975: +22%

May 1977: +1.2%

May 1980: +20.0%

Mar. 1984: +13.5%

Oct. 1990: +29.1%

Jan. 2000: -2.0%

Mar. 2003: +32.8%

Jan. 2004: +4.4%

Oct. 2005: +14.2%

Jan. 2007: -4.2%

Nov. 2008: +22.2%

Aug. 2011: +15.4%

Jan. 2015: -2.7%

Feb. 2020: +29.0%

Apr. 2020: +43.6%

Apr. 2021: -1.2%

Jun. 2022: +17.6%

Mar. 2024: 79.4

Average: 84.7

Sentiment cycle turning point and subsequent 12-month S&P 500 Index return

120, 110, 100, 90, 80, 70, 60, 50, 40

'71 '73 '75 '77 '79 '81 '83 '85 '87 '89 '91 '93 '95 '97 '99 '01 '03 '05 '07 '09 '11 '13 '15 '17 '19 '21 '23

Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only starting from the end of the month and excluding dividends. Past performance is not a reliable indicator of current and future results.
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5 VOLATILITY IS NORMAL, SO DON'T LET IT DERAIL YOU

and plan on riding it out instead of reacting emotionally

Seeing through the noise

Every year has its rough patches. The red dots on this chart represent the maximum intra-year decline in every calendar year for the S&P 500 going back to 1980. While these pull-backs cannot be predicted, they can be expected; after all, markets suffered double-digit declines in 25 of the last 44 years.

However, despite the many pull-backs, roughly 75% of those years ended with positive returns, as reflected by the gray bars. As a result, volatility is unlikely to derail a long-term allocation. Investors therefore need a plan for riding out volatile periods instead of reacting emotionally.

5 – Volatility is normal, so don’t let it derail you

Equities

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 33 of 44 years

Year	Calendar year return	Intra-year decline
1980	26%	-17%
1981	-10%	-18%
1982	15%	-17%
1983	17%	-7%
1984	1%	-13%
1985	26%	-8%
1986	15%	-9%
1987	2%	-34%
1988	12%	-8%
1989	27%	-8%
1990	-7%	-20%
1991	26%	-6%
1992	4%	-6%
1993	7%	-5%
1994	-2%	-9%
1995	34%	-3%
1996	20%	-8%
1997	31%	-11%
1998	27%	-19%
1999	20%	-12%
2000	-10%	-17%
2001	-13%	-30%
2002	-23%	-34%
2003	26%	-14%
2004	9%	-8%
2005	3%	-7%
2006	14%	-8%
2007	4%	-10%
2008	-38%	-49%
2009	23%	-28%
2010	13%	-16%
2011	0%	-19%
2012	13%	-10%
2013	30%	-6%
2014	11%	-7%
2015	-1%	-12%
2016	10%	-11%
2017	19%	-3%
2018	-6%	-20%
2019	29%	-7%
2020	16%	-34%
2021	27%	-5%
2022	-19%	-25%
2023	24%	-10%
2024 YTD	10%	-2%

Source: FactSet, Standard & Poor’s, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2023, over which time period the average annual return was 10.3%.
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6 DIVERSIFICATION WORKS

and it is a winning strategy over the long run

Diversification has served its purpose

The last 15 years have provided a volatile and tumultuous ride for investors, with multiple natural disasters, numerous geopolitical conflicts, a global pandemic and two major market downturns.

Yet despite these difficulties, cash was among the worst performing asset classes over this time period. Meanwhile, a well-diversified portfolio of stocks, bonds and other uncorrelated asset classes returned roughly 8% per year over this time period (and around 220% on a cumulative total return basis).

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6 – Diversification works

2009-2023																	
Ann.	Vol.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
Large Cap 14.0%	Small Cap 21.9%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 16.1%	Large Cap 26.3%	Large Cap 10.6%
Small Cap 11.3%	REITs 21.2%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 18.9%	DM Equity 5.8%
REITs 10.9%	EM Equity 20.3%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	Small Cap 16.9%	Small Cap 5.2%
High Yield 8.6%	DM Equity 18.4%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 14.1%	Asset Alloc. 4.2%
Asset Alloc. 8.1%	Comdty. 16.6%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 14.0%	Comdty. 2.2%
DM Equity 7.4%	Large Cap 16.1%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	REITs 11.4%	EM Equity 2.2%
EM Equity 6.9%	High Yield 11.5%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	EM Equity 10.3%	High Yield 2.1%
Fixed Income 2.7%	Asset Alloc. 11.5%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	Fixed Income 5.5%	Cash 1.3%
Cash 0.8%	Fixed Income 4.5%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Cash 5.1%	Fixed Income -0.8%
Comdty. -0.2%	Cash 0.7%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Comdty. -7.9%	REITs -1.3%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2009 to 12/31/2023. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
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7 STAYING INVESTED MATTERS

and it is the most essential principle of all

Good things come to those who wait

While markets will always have a bad day, week, month or even year, history suggests that investors are less likely to suffer losses over longer periods.

This chart illustrates that concept. While one-year stock returns have varied widely since 1950, a blend of stocks and bonds has not suffered a negative return over any five-year rolling period over the past 70 years.

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7 – Staying invested matters

Range of stock, bond and blended total returns

Annual total returns, 1950-2023

	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.4%	$868,652
Bonds	5.3%	$279,266
60/40 portfolio	9.3%	$591,915

	Stocks max	Stocks min	Bonds max	Bonds min	60/40 max	60/40 min
1-yr.	52%	-37%	33%	-13%	34%	-20%
5-yr. rolling	29%	-2%	18%	-2%	20%	1%
10-yr. rolling	20%	-1%	14%	1%	16%	1%
20-yr. rolling	18%	6%	11%	1%	15%	5%

Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Standard and Poor's, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2023. Stocks represent the S&P 500 Shiller Composite for periods prior to 1936 and the S&P 500 thereafter. Bonds represent Strategas/Ibbotson for periods prior to 1976 and the Bloomberg Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2023.
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PUTTING IT ALL TOGETHER

Each of the Principles for Successful Long-Term Investing is vital to help investors navigate today's challenging markets and reach their financial goals. Important as they are alone, they are most effective and powerful when used together. Moreover, they all depend on staying invested – the most essential principle of all.

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