

# INVESTING FOR THE SHORT & LONG TERM

**Green Bay Area Retired Men's Club**

**December 11, 2018**

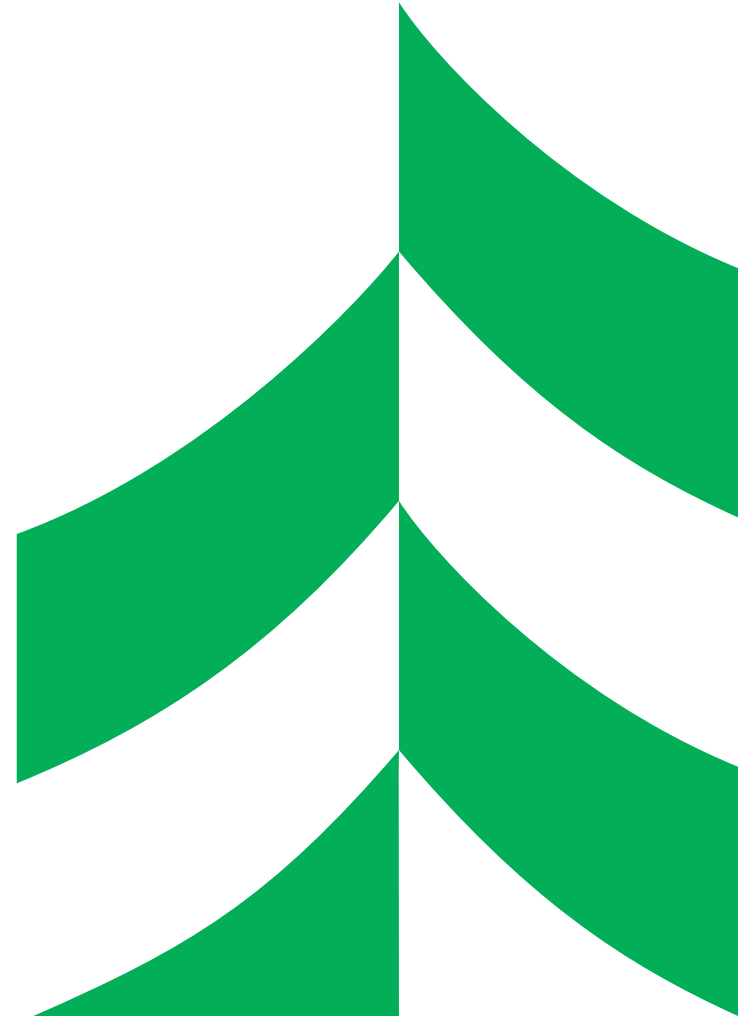


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**Joined by:**

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**Senior Vice President, Personal & Corporate Trust Manager**

**Andy K. Schroeder**  
**Investment Associate**



# AGENDA


- **CURRENT ECONOMIC CONDITIONS**
- **REASONS FOR THE RECENT MARKET VOLATILITY**
- **LONG TERM INVESTING PRINCIPALS**
- **INVESTMENT ADVICE TO SHARE WITH CHILDREN & GRANDCHILDREN**
- **Q&A**

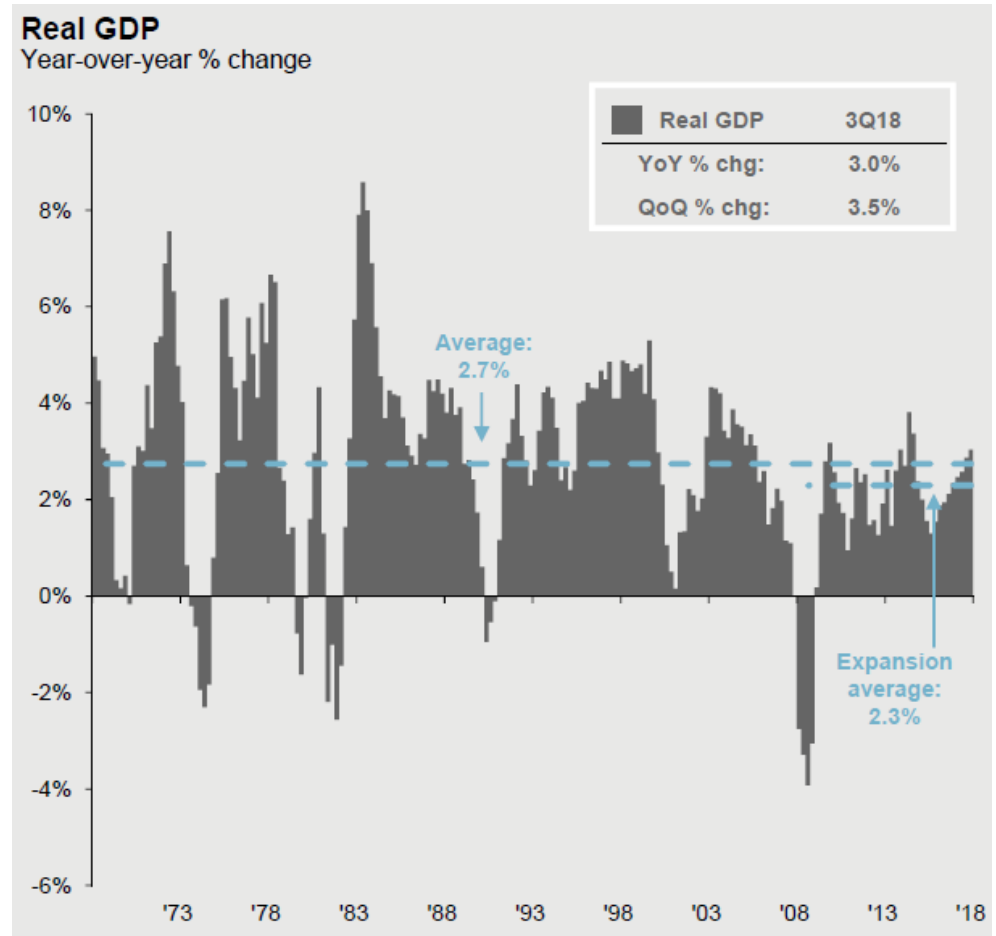


# CURRENT ECONOMIC CONDITIONS

Underlying market fundamentals are strong but have a lack of visibility

- **Market Positives**

- Strong economy 
- Robust labor market and wage growth
- Tax reform
- Strong earnings
- Falling valuations

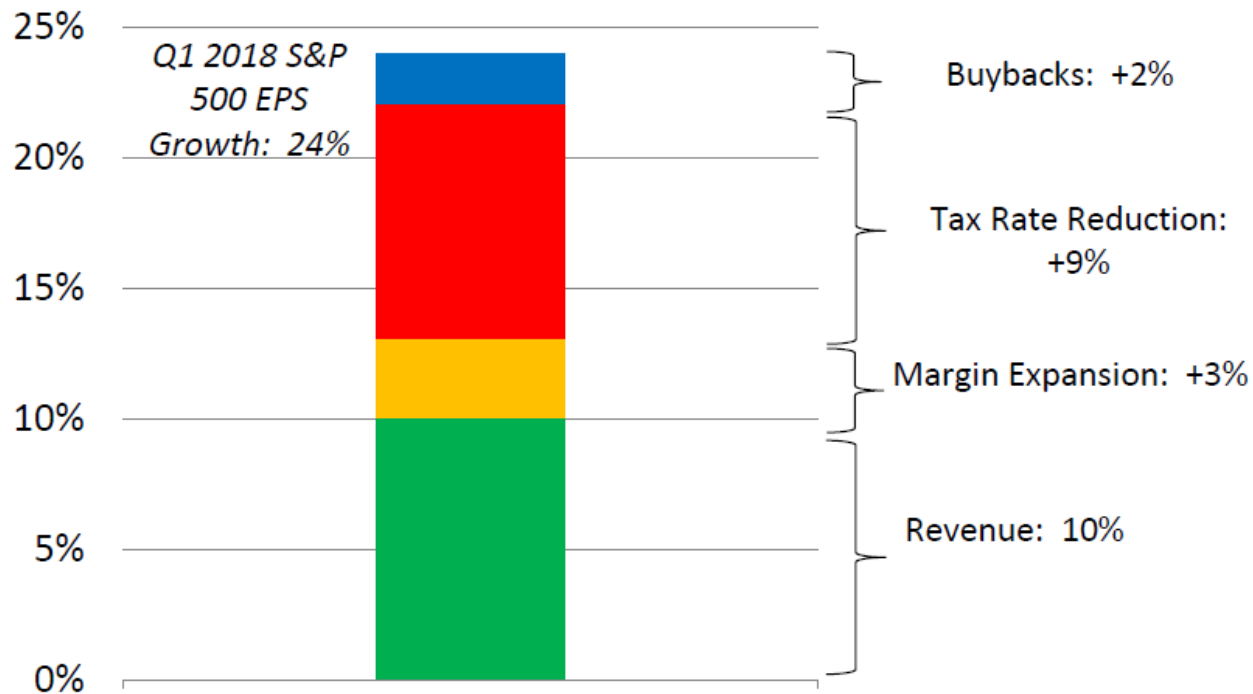


Source: BEA, FactSet, J.P. Morgan Asset Management.



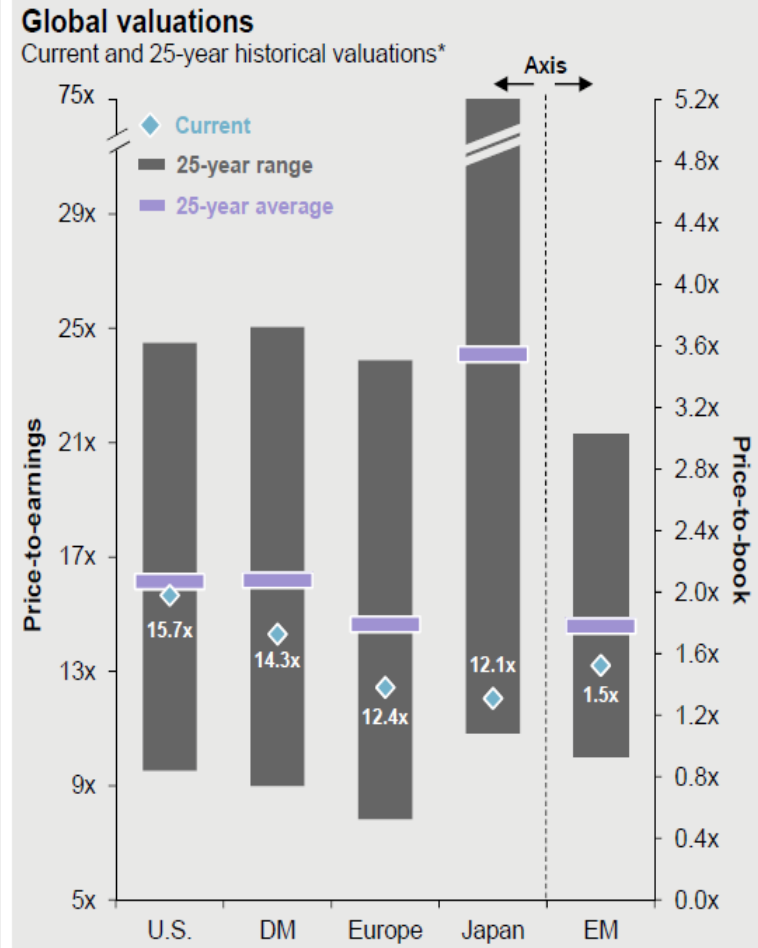
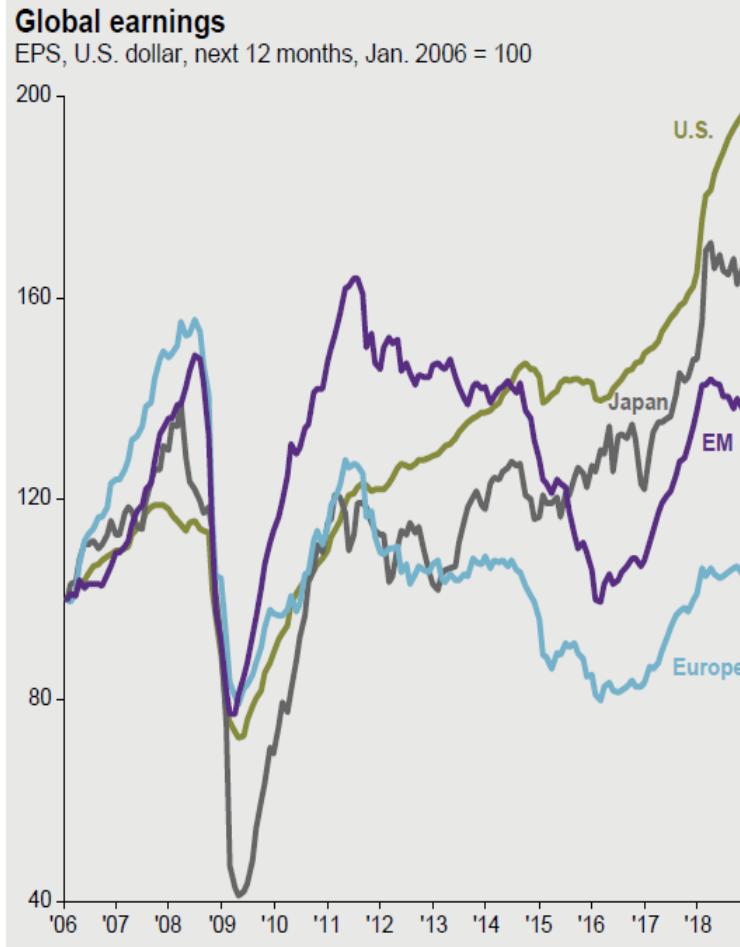
# MARKET STRENGTH: ROBUST EARNINGS GROWTH SUPPORTED BY TAX REFORM & INCREASED BUSINESS REVENUES

Full year 2018 S&P 500 EPS growth rate is expected to be over 20%



# MARKET STRENGTH: U.S. EARNINGS CONTINUE TO OUTPERFORM OTHER COUNTRIES

International



Source: FactSet, MSCI, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.

\*Valuations refer to NTMA P/E for Europe, U.S., Japan and developed markets and P/B for emerging markets. Valuation and earnings charts use MSCI indices for all regions/countries, except for the U.S., which is the S&P 500. All indices use IBES aggregate earnings estimates, which may differ from earnings estimates used elsewhere in the book. MSCI Europe includes the eurozone as well as countries not in the currency bloc, such as



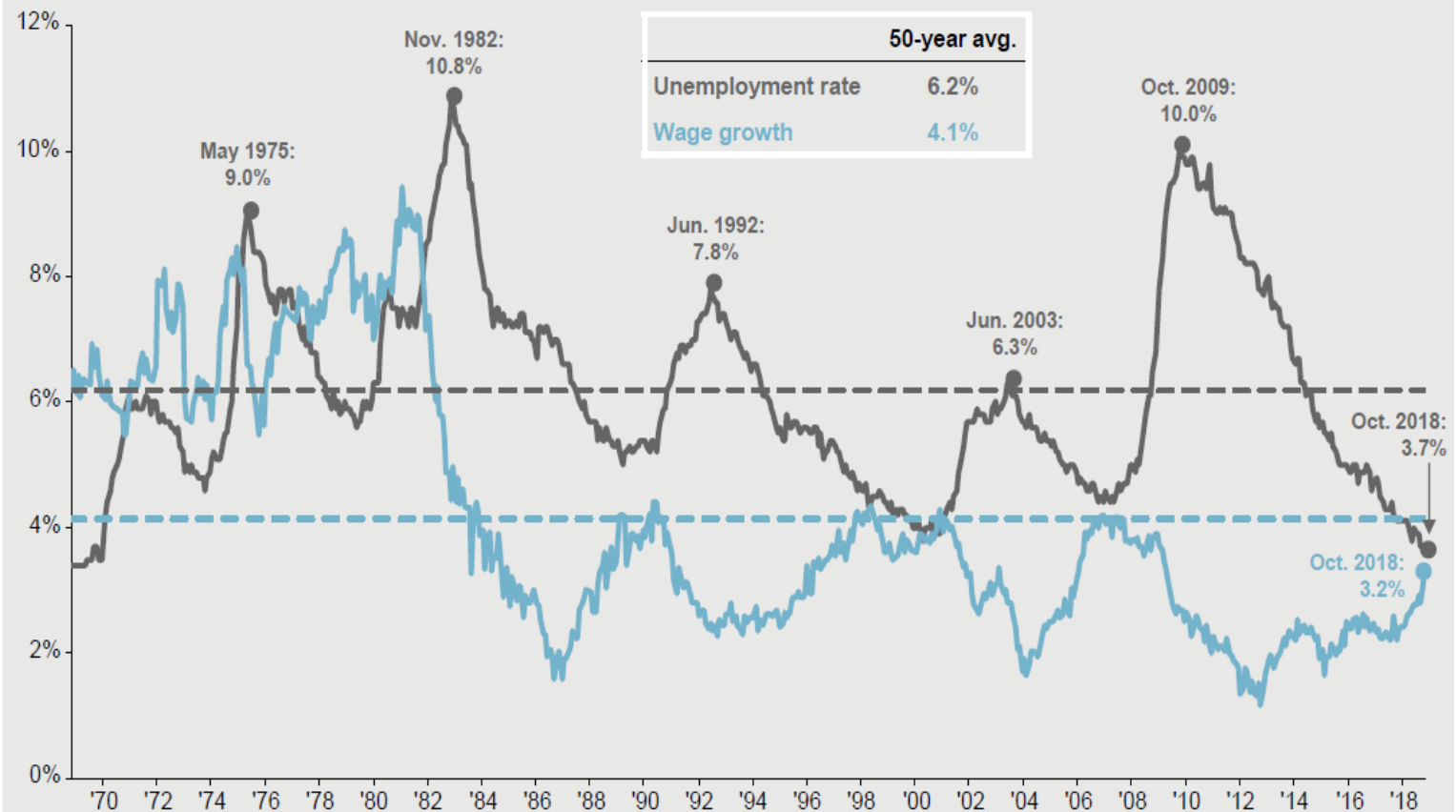
# MARKET STRENGTH: STRONG LABOR MARKET AND WAGE GROWTH



Economy

**Civilian unemployment rate and year-over-year wage growth for private production and non-supervisory workers**

Seasonally adjusted, percent



Source: BLS, FactSet, J.P. Morgan Asset Management.  
Guide to the Markets - U.S. Data are as of October 31, 2018.

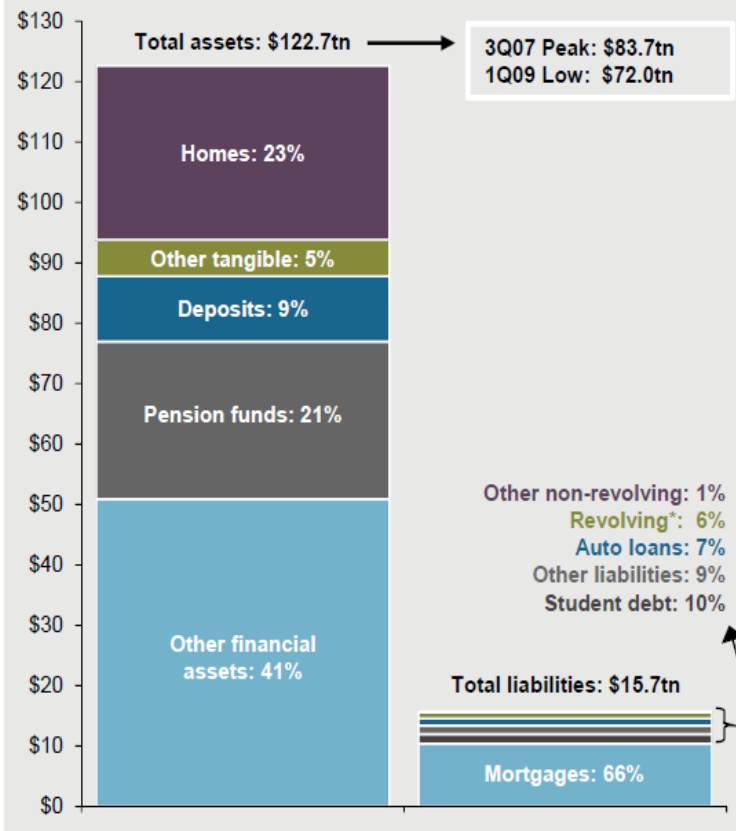


# MARKET STRENGTH: HOUSEHOLD NET WORTH AT ALL TIME HIGHS

Economy

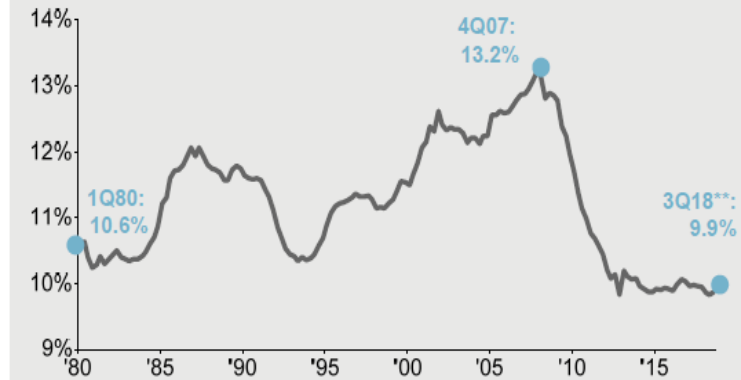
## Consumer balance sheet

2Q18, trillions of dollars outstanding, not seasonally adjusted



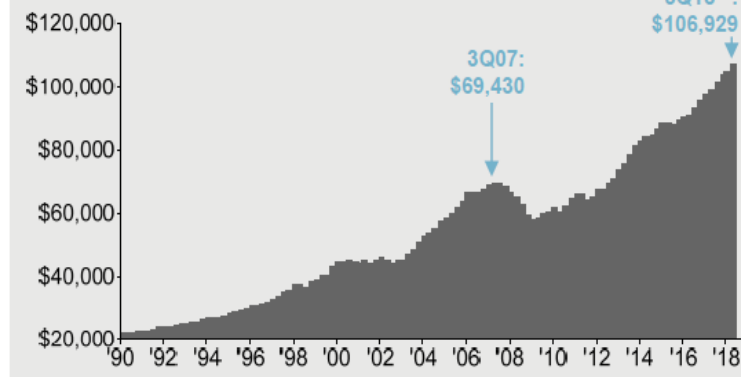
## Household debt service ratio

Debt payments as % of disposable personal income, SA



## Household net worth

Not seasonally adjusted, USD billions



Source: FactSet, FRB, J.P. Morgan Asset Management; (Top and bottom right) BEA.  
Data include households and nonprofit organizations. SA – seasonally adjusted. \*Revolving includes credit cards. Values may not sum to 100% due to rounding. \*\*3Q18 figures for debt service ratio and household net worth are J.P. Morgan Asset Management estimates.



# SO WHY THE RECENT WEAKNESS IN THE STOCK MARKET?

**S&P 500 down 10% between October 3, 2018 and November 23, 2018**

- Market weakness due to:
  - Concerns regarding Federal Reserve policy and rising interest rates
  - Uncertainty regarding trade disputes and tariffs
  - Fear that operating margins, earnings, and global growth have peaked and will fall in 2019

## Oil Rout Casts Pall Over U.S. Markets

Investors fret about growth and Fed policy

By DAVID HODARI AND AKANE OTANI

U.S. stocks slipped Friday as oil prices tumbled to their lowest levels in more than a year, dragging shares of energy companies lower.

The latest rout in oil prices added

helped lead the bull market earlier in the year.

Some of the swings were likely exacerbated by relatively low trading volumes heading into the weekend, with the U.S. stock market closing early after Thanksgiving and Japanese markets shut for a public holiday, analysts said.

Still, the decline in crude prices—which analysts have attributed to

STREETWISE | JAMES MACKINTOSH

## How Worried Should You Be About a Selloff?



A rat-tat-tat of bad news hit stocks over the past two months, Wall Street strategists are obsessing over the odds of recession, and bears outnumber bulls in one popular investor survey. Was it merely bad luck that so many bad things happened all at once? Or is something wrong deep

in the financial and economic system, that could tip the sharp selloff since late September into a bear market?

The answer may be both. Bad things happen all the time, but when there's nothing deep to worry about, they have little wider effect. Only when there are broader problems do idiosyncratic events build

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# FED POLICY CAUSING VOLATILITY

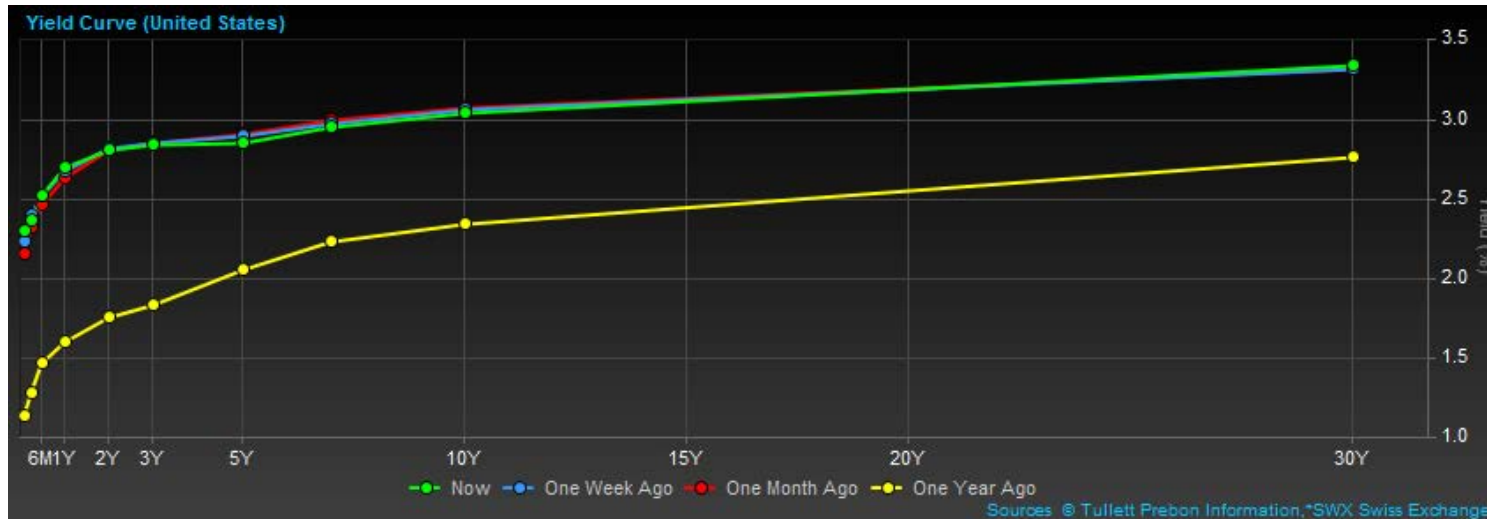
Federal Reserve Chairman Jerome Powell's comments on the future path of interest rates have changed and are heavily scrutinized by the markets

October 3<sup>rd</sup>

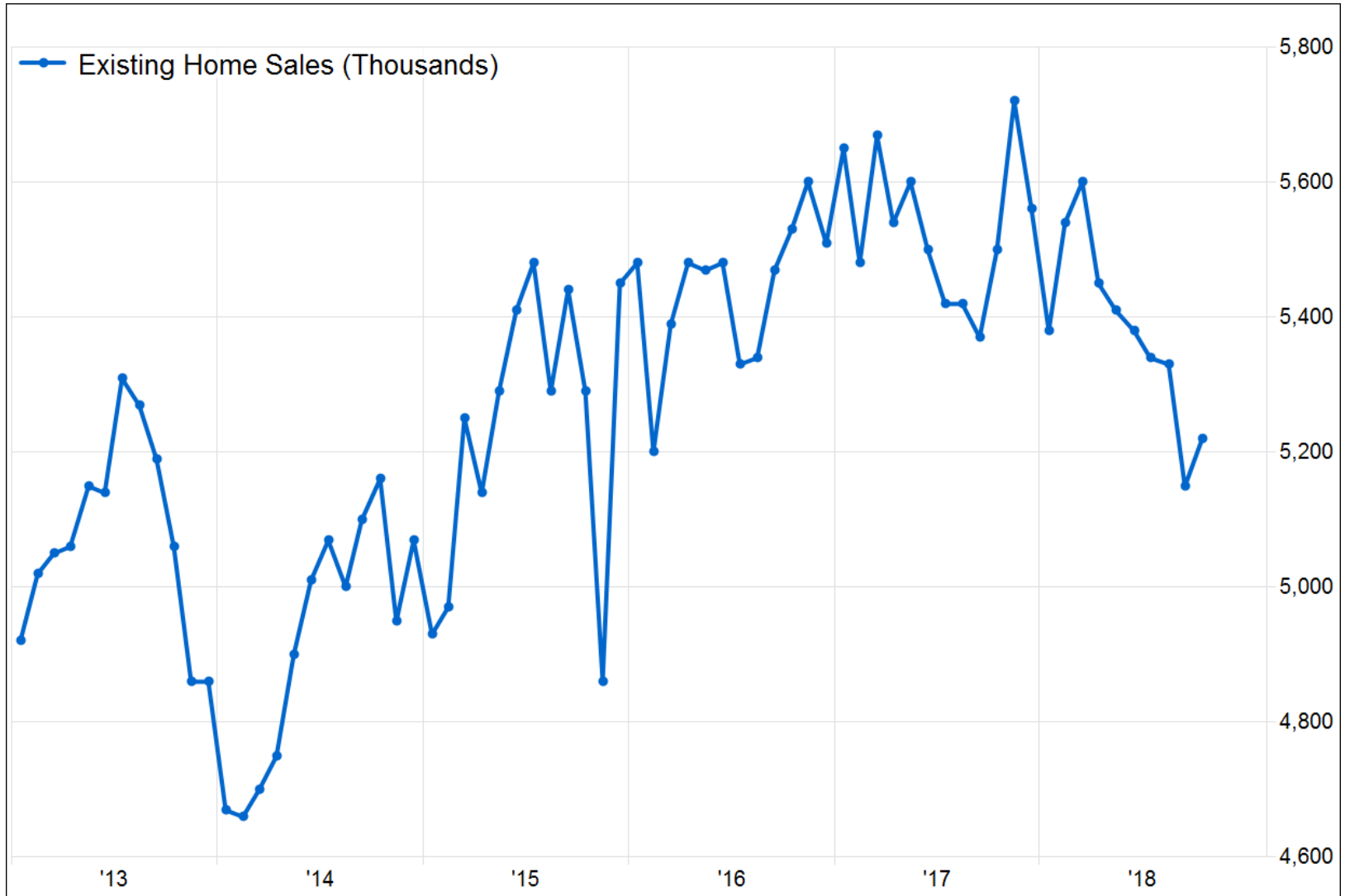
“Interest rates are still accommodative ... **we're a long way from neutral** at this point, probably.”

November 28<sup>th</sup>

“Interest rates are still low by historical standards, and **they remain just below ... neutral** for the economy”



# RISING INTEREST RATES HAVE SLOWED EXISTING HOME SALES



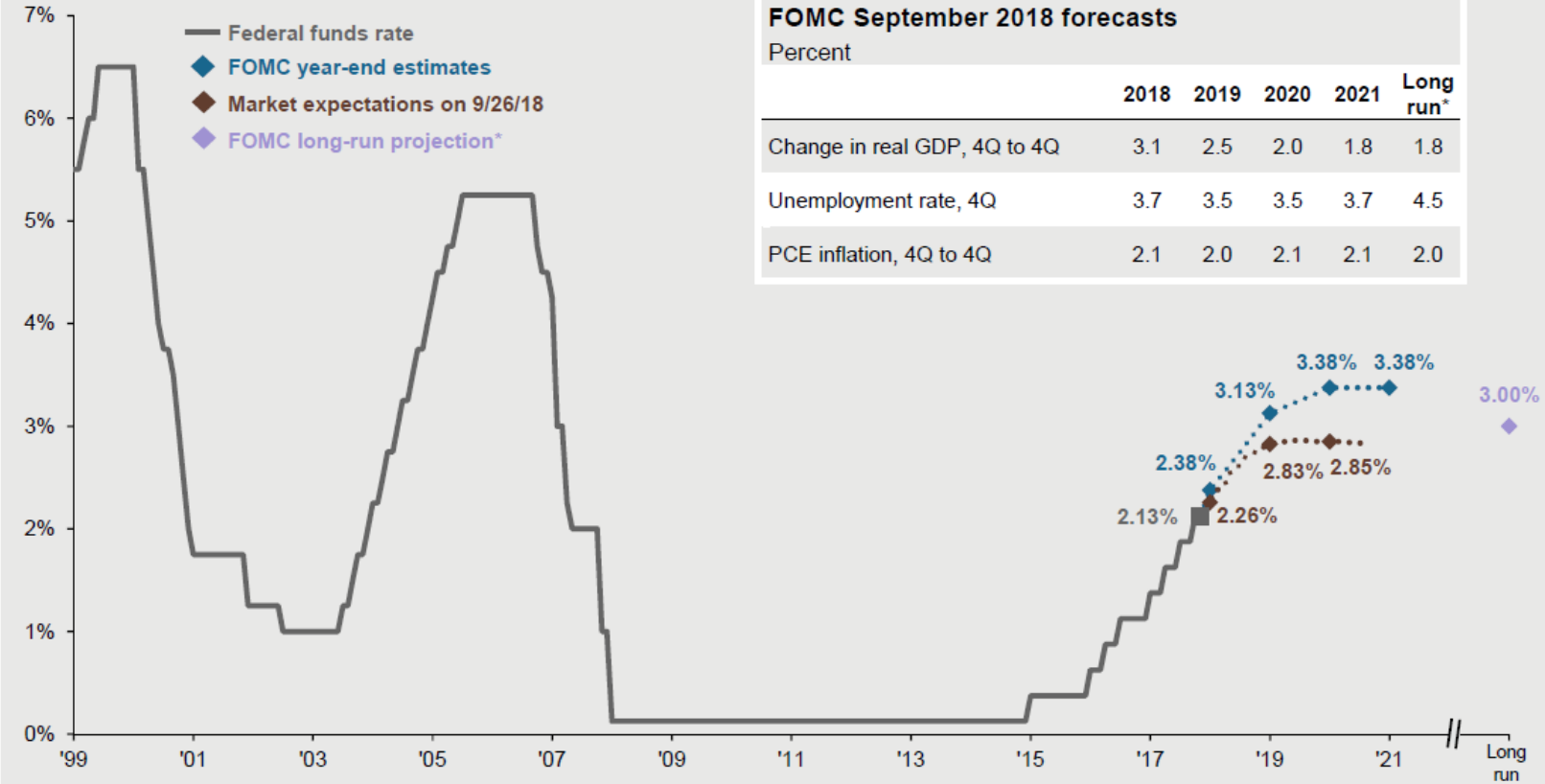
# FED POLICY CAUSING VOLATILITY



Fixed income

## Federal funds rate expectations

FOMC and market expectations for the fed funds rate



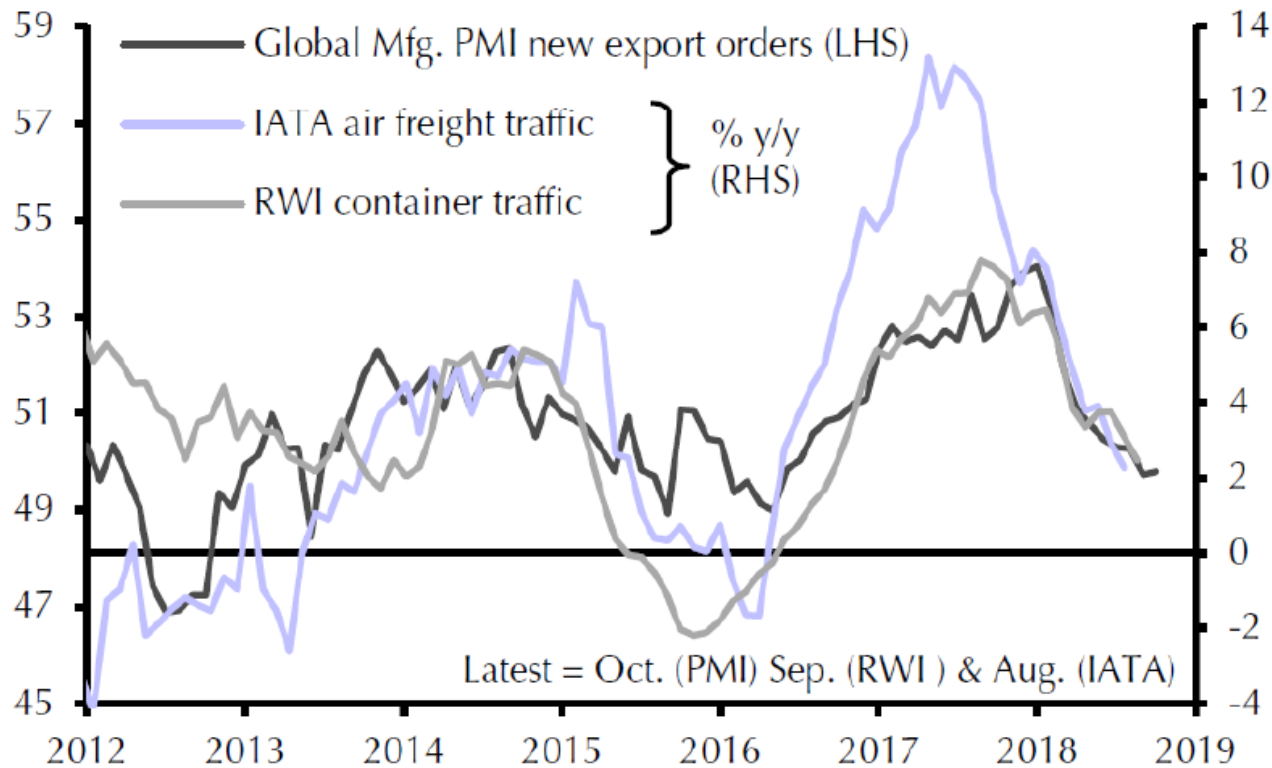
Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are the federal funds rates priced into the fed futures market as of the date of the September 2018 FOMC meeting and are through September 2021. \*Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to



# TRADE DISPUTES & TARIFFS ARE ALSO CAUSING VOLATILITY

Most recent trade data shows global trade continuing to grow but at a much slower rate with the first round of tariffs taking effect

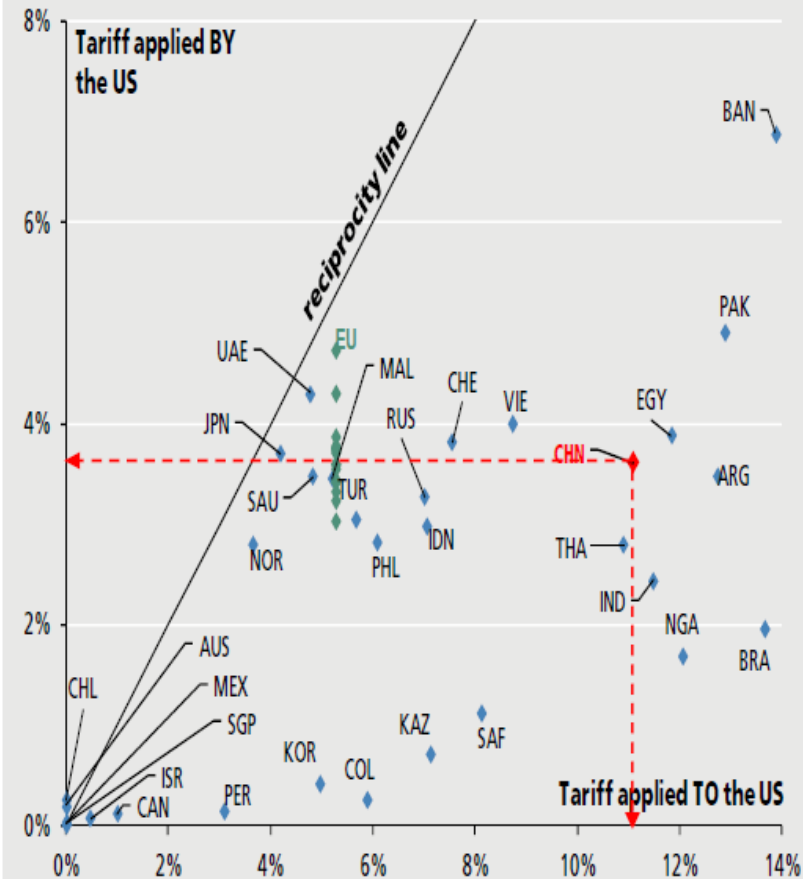


# TRADE DISPUTES & TARIFFS ARE ALSO CAUSING VOLATILITY

Perceived trade unfairness and a potentially strong U.S. bargaining position has fueled trade tensions...

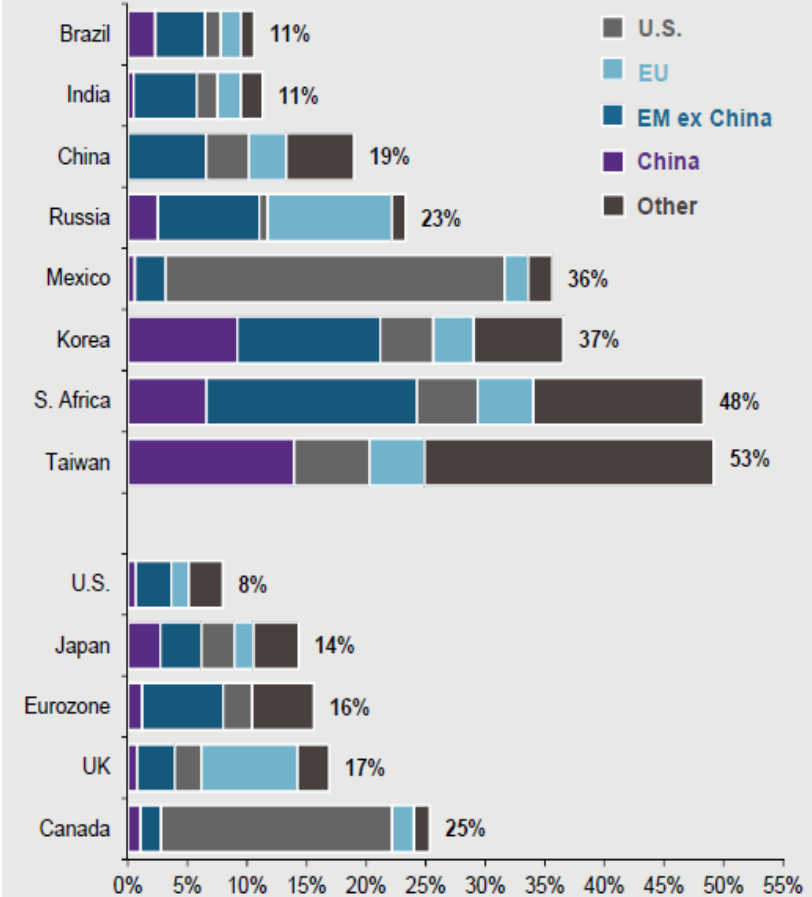
## Tariffs by region

Average tariff on traded good by U.S. trading partner



## Exports as a share of GDP

Goods exports, 2017



Source: FactSet, J.P. Morgan Asset Management; (Left) Eye on the Market, WTO, World Bank; (Right) IMF.  
 Tariff data are as of December 31, 2015, or most recent available. Tariff is simple average of tariffs on traded goods.  
 Data are as of July 31, 2018.



# MAKE INVESTMENT DECISIONS BASED ON YOUR LONG TERM GOALS & RISK TOLERANCE

- Remember the market does not move in a linear fashion
- Use volatility to your advantage, not to your detriment
- Diversify to reduce risk



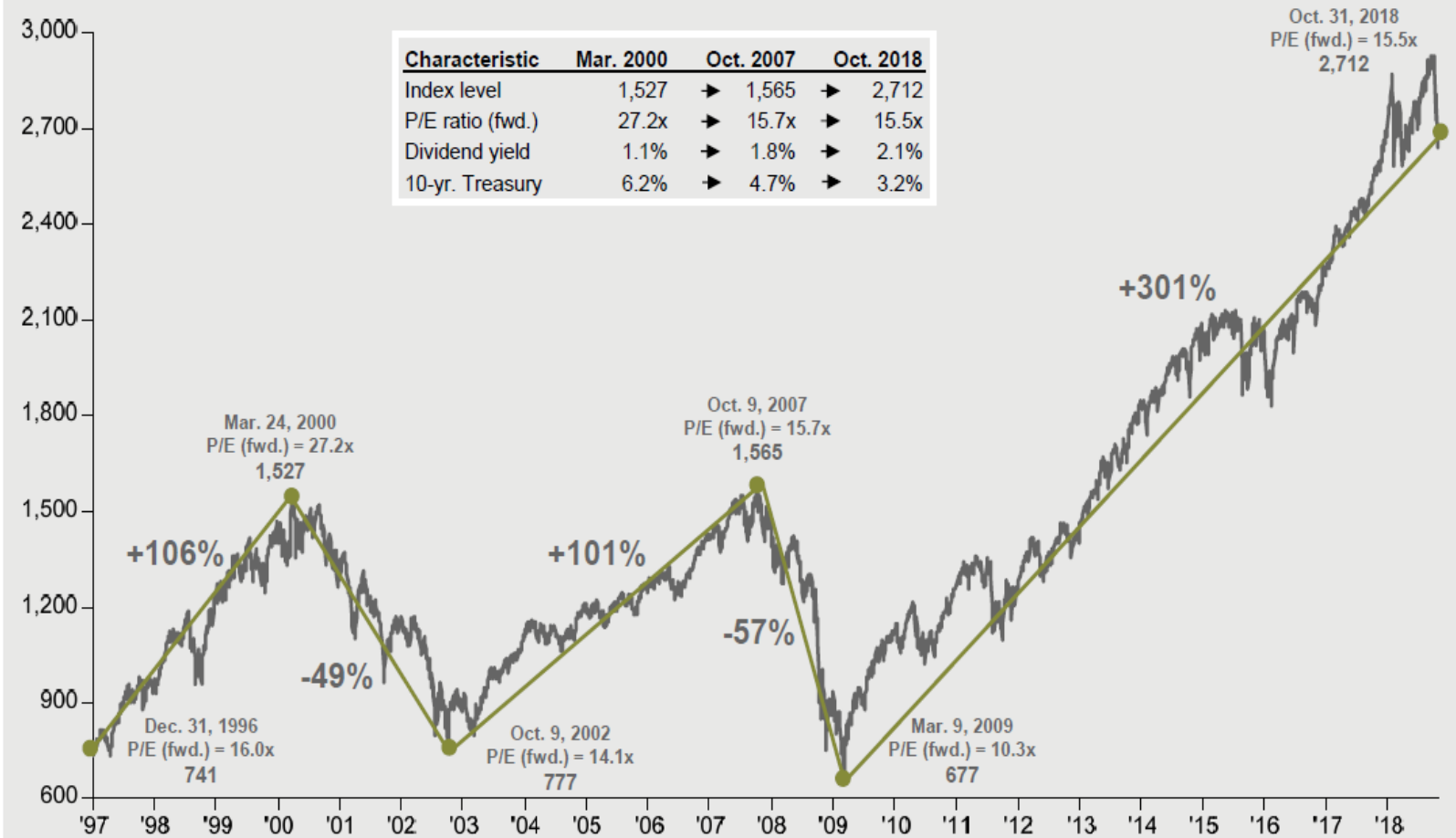
# MAKE INVESTMENT DECISIONS BASED ON YOUR LONG TERM GOALS & RISK TOLERANCE

S&P 500 Index at inflection points

GTM - U.S. | 4

Equities

S&P 500 Price Index



Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.

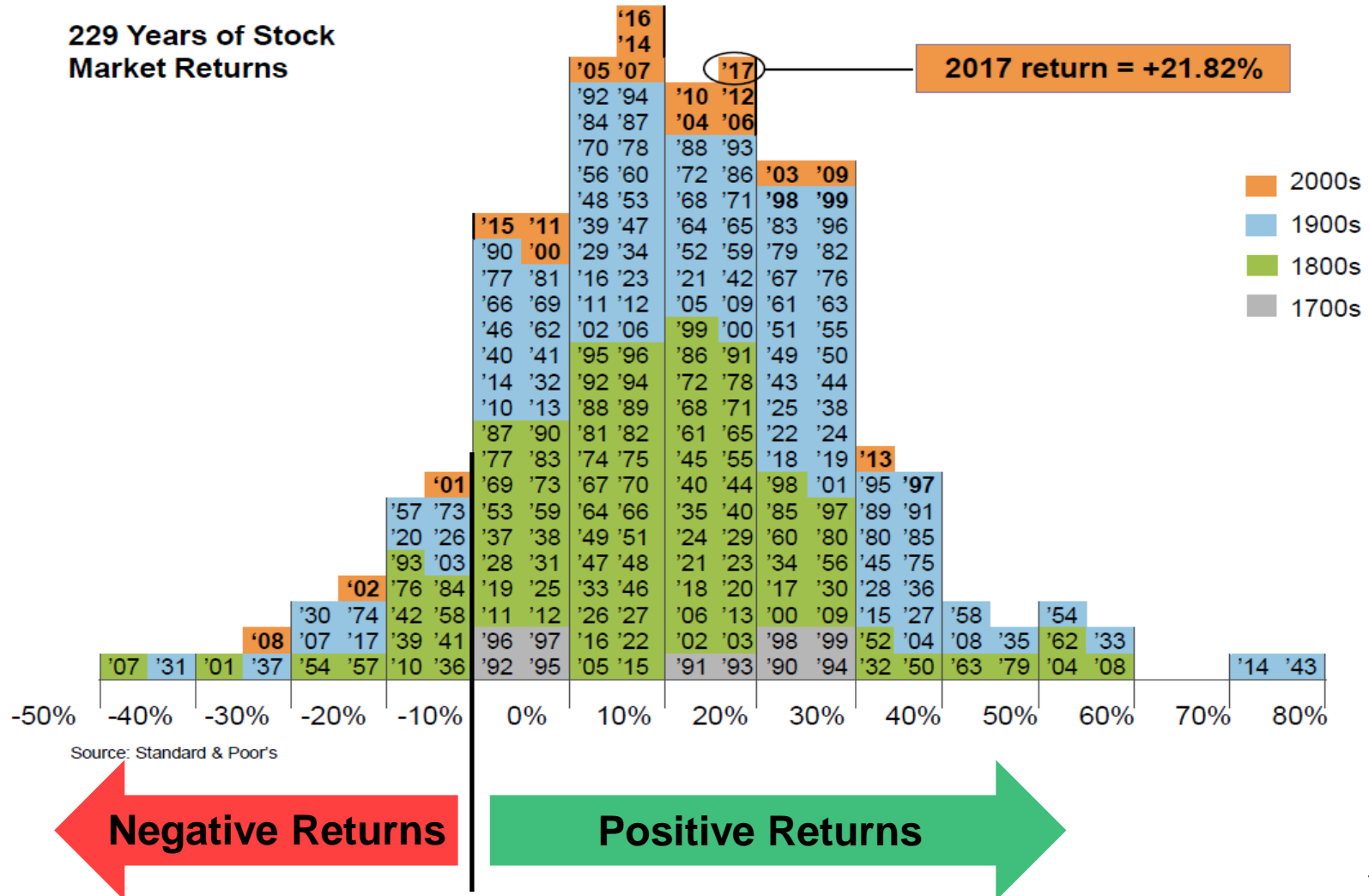
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price



# MAKE INVESTMENT DECISIONS BASED ON YOUR LONG TERM GOALS & RISK TOLERANCE

## Stock Market Returns by Calendar Year

229 Years of Stock Market Returns



Source: Standard & Poor's

Negative Returns

Positive Returns

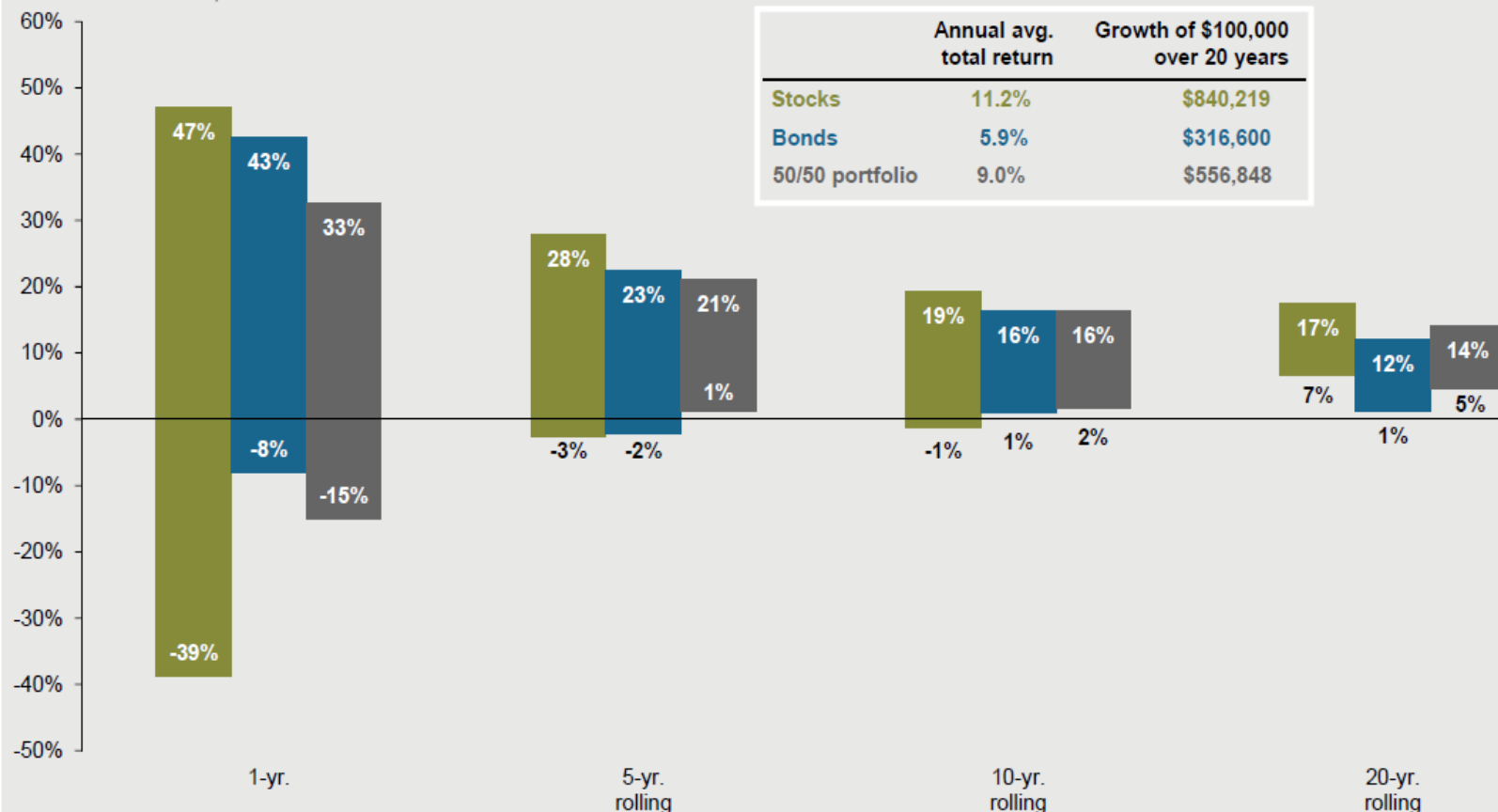
# MAKE INVESTMENT DECISIONS BASED ON YOUR LONG TERM GOALS & RISK TOLERANCE

Time, diversification and the volatility of returns

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## Range of stock, bond and blended total returns

Annual total returns, 1950-2017



Investing principles

Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2017. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of \$100,000 is based on annual average total returns from 1950 to 2017.



# MAKE INVESTMENT DECISIONS BASED ON YOUR LONG TERM GOALS & RISK TOLERANCE

Since 1980 the average year has included a market drop of **13.8%** yet the average annual return is **8.8%**

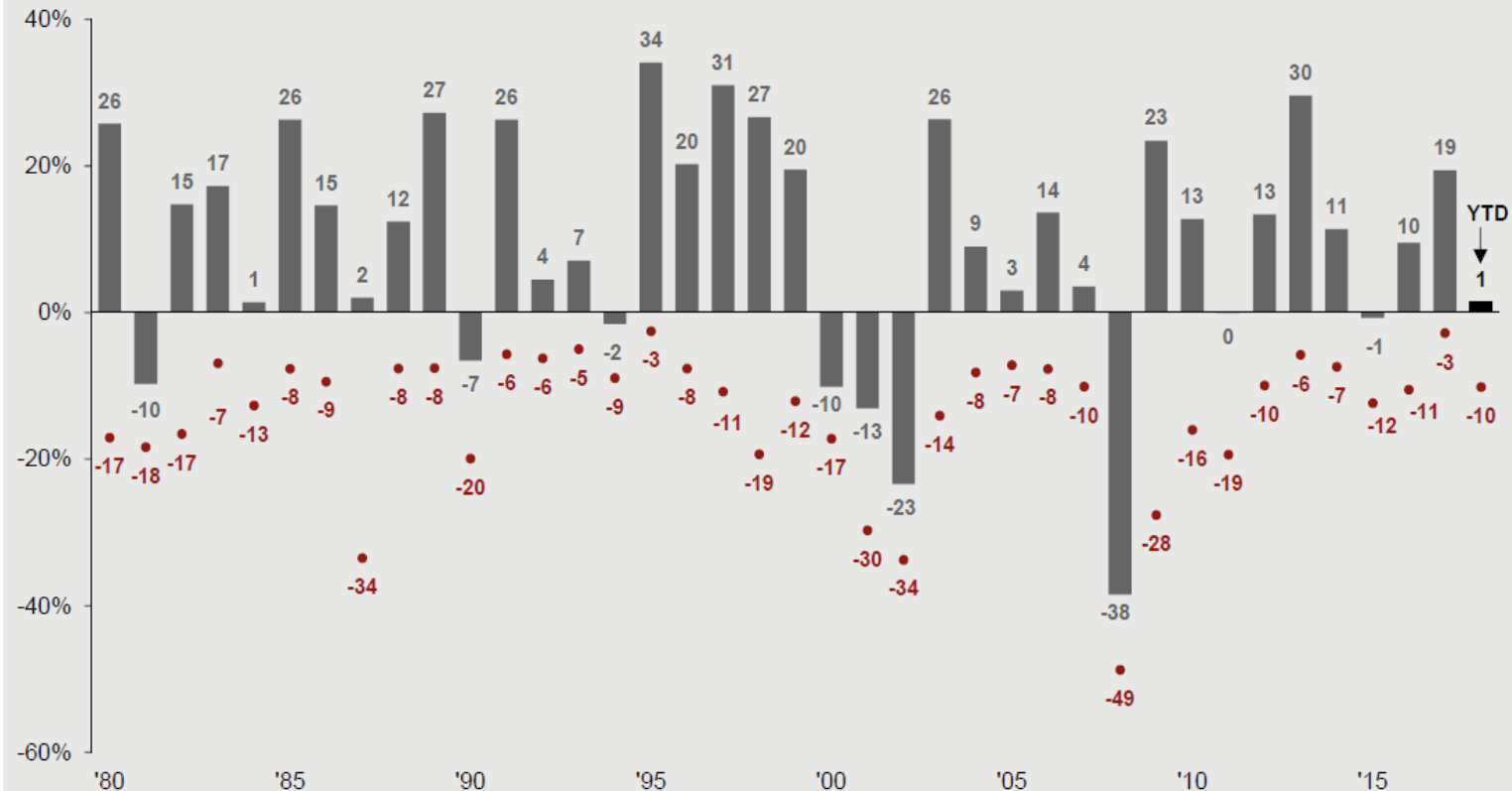
## Annual returns and intra-year declines

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Equities

### S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 13.8%, annual returns positive in 29 of 38 years



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 2017, over which time period the average annual return was 8.8%.

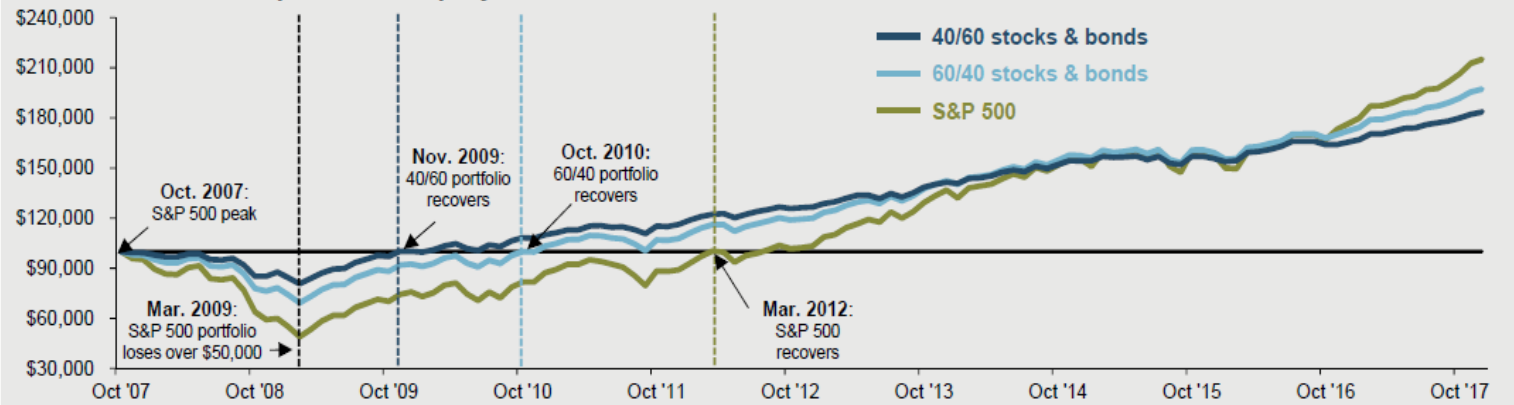


# MAKE INVESTMENT DECISIONS BASED ON YOUR LONG TERM GOALS & RISK TOLERANCE

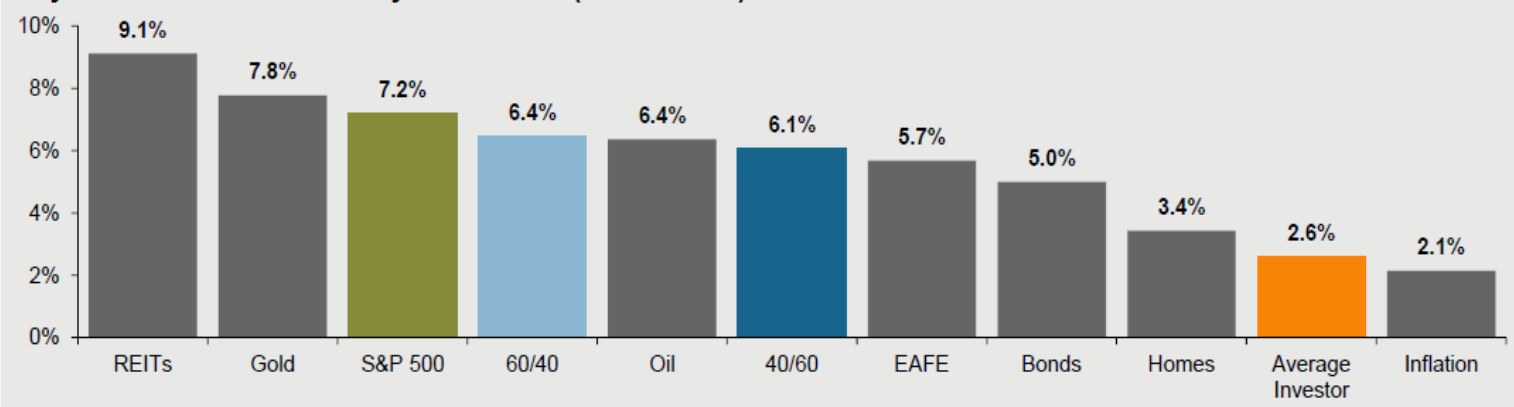
## Diversification and the average investor

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Portfolio returns: Equities vs. equity and fixed income blend



20-year annualized returns by asset class (1998 – 2017)



Investing principles

Source: J.P. Morgan Asset Management; (Top) Barclays, Bloomberg, FactSet, Standard & Poor's; (Bottom) Dalbar Inc. Indices used are as follows: REITs: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Bloomberg Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz., Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg Barclays U.S. Aggregate Index. The portfolio is

# ADVISE CHILDREN AND GRANDCHILDREN TO TAKE A LONG TERM APPROACH

“Someone’s sitting in the shade today because  
someone planted a tree a long time ago.”  
- Warren Buffett



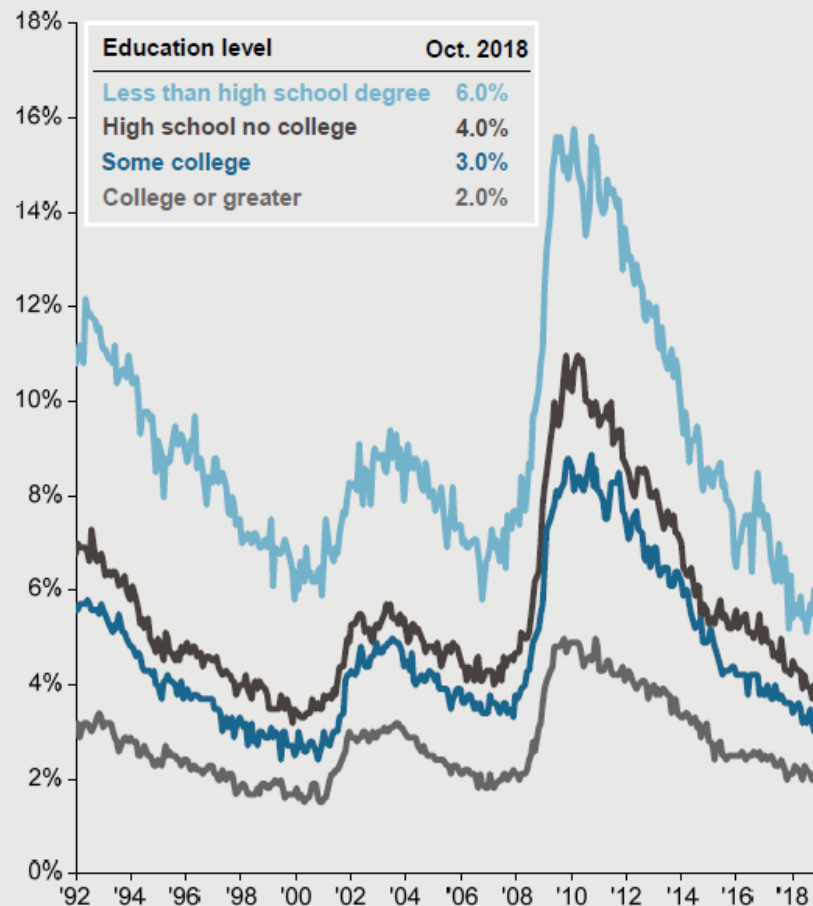
# EDUCATION REMAINS VALUABLE

## Employment and income by educational attainment

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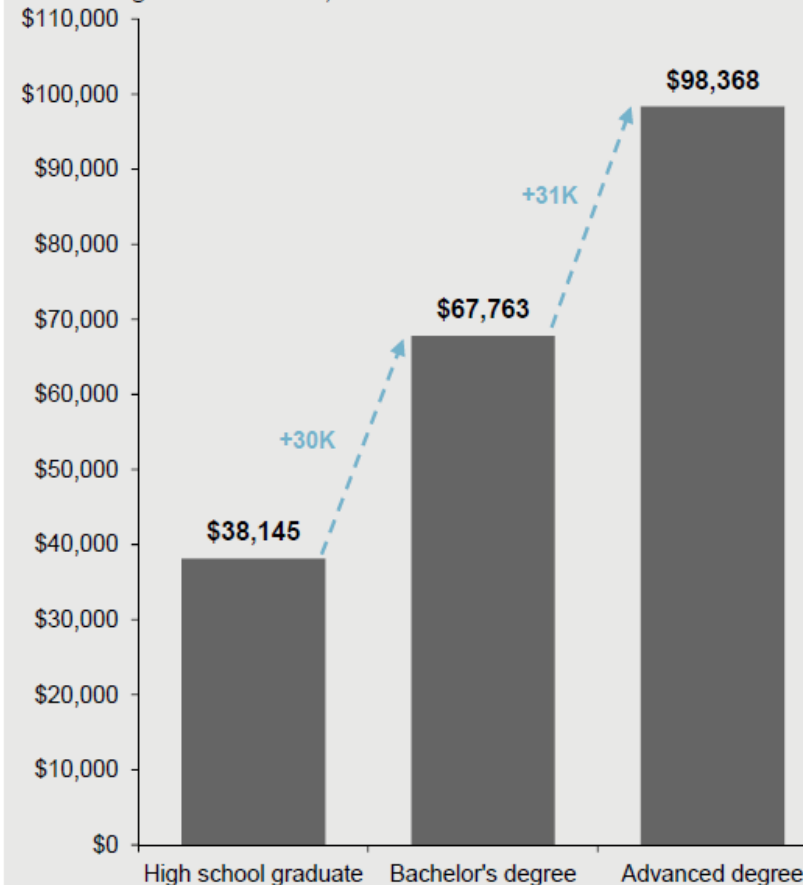
Economy

### Unemployment rate by education level



### Average annual earnings by highest degree earned

Workers aged 18 and older, 2017



Source: J.P. Morgan Asset Management; (Left) BLS, FactSet; (Right) Census Bureau.

# INVEST EARLY AND DOLLAR COST AVERAGE

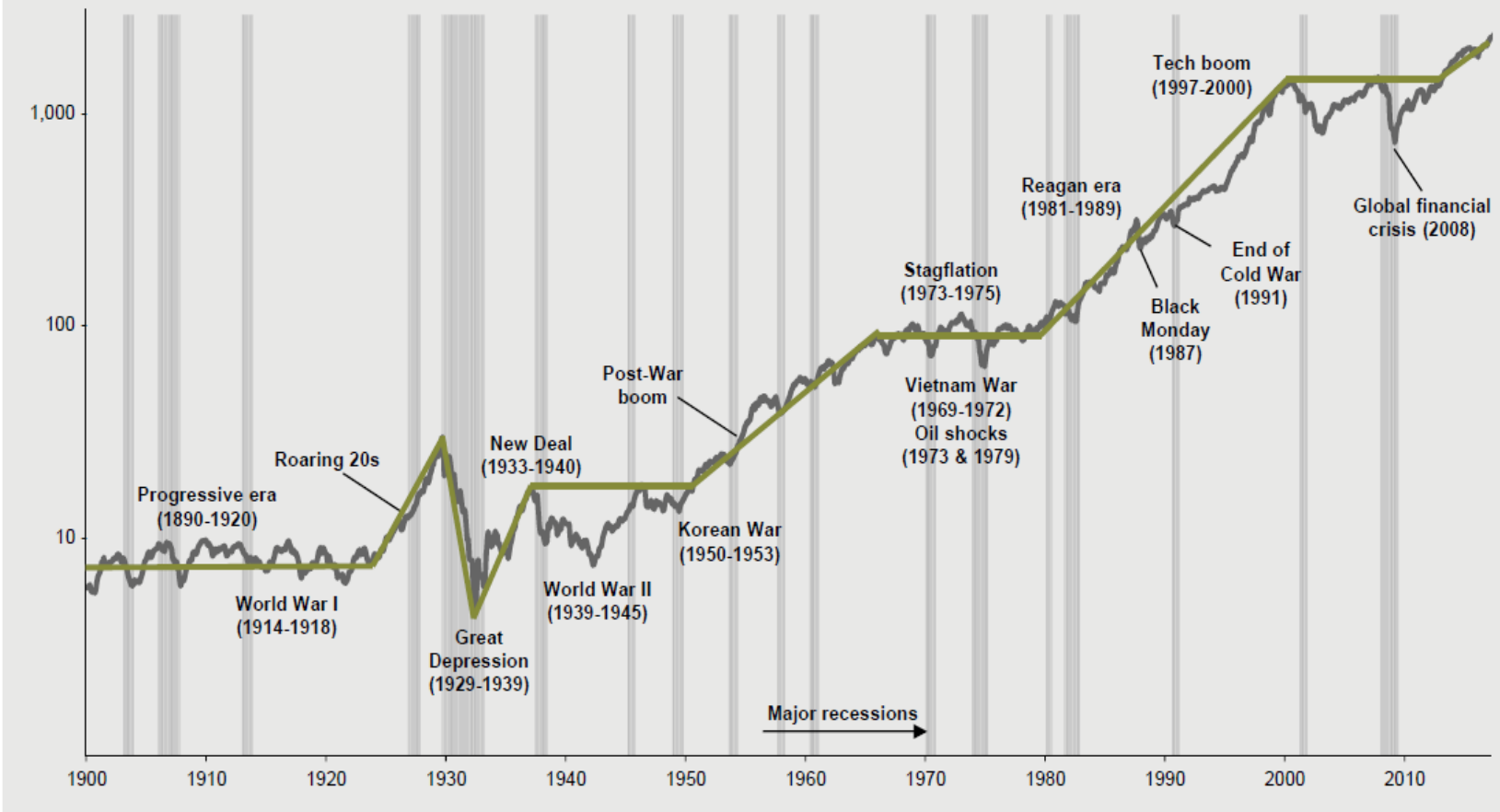
Stock market since 1900

GTM - U.S. | 16

Equities

## S&P Composite Index

Log scale, annual



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.  
Data shown in log scale to best illustrate long-term index patterns.  
Past performance is not indicative of future returns. Chart is for illustrative purposes only.



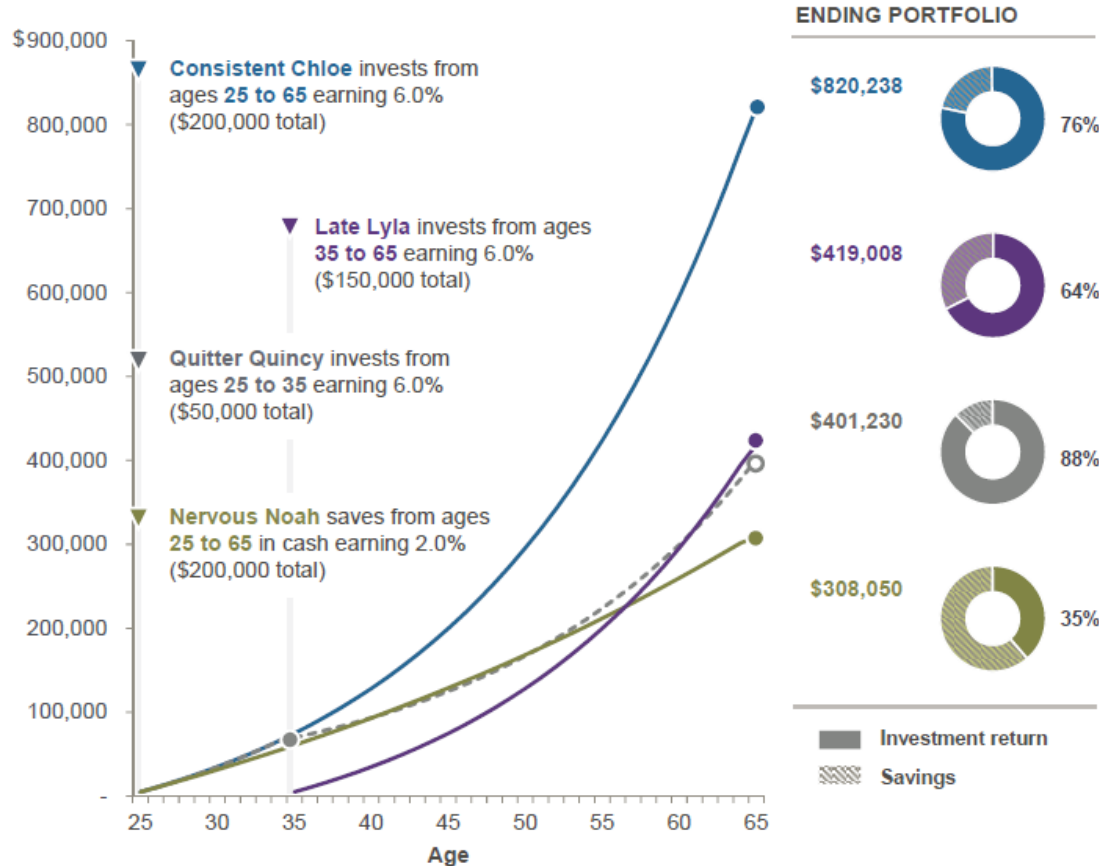
# INVEST EARLY AND BENEFIT FROM THE MIRACLE OF COMPOUNDING

Benefit of saving and investing early

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Saving

Account growth of \$5,000 invested/saved annually



**SAVING FUNDAMENTALS**

Saving early and often, and investing what you save, are some of the keys to a successful retirement due to the power of compounding over the long term.

The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 6.0% annual return and cash assumes a 2.0% annual return. Source: J.P. Morgan Asset Management, Long-Term Capital Market Assumptions. Compounding refers to the process of earning return on principal plus the return that was earned earlier.



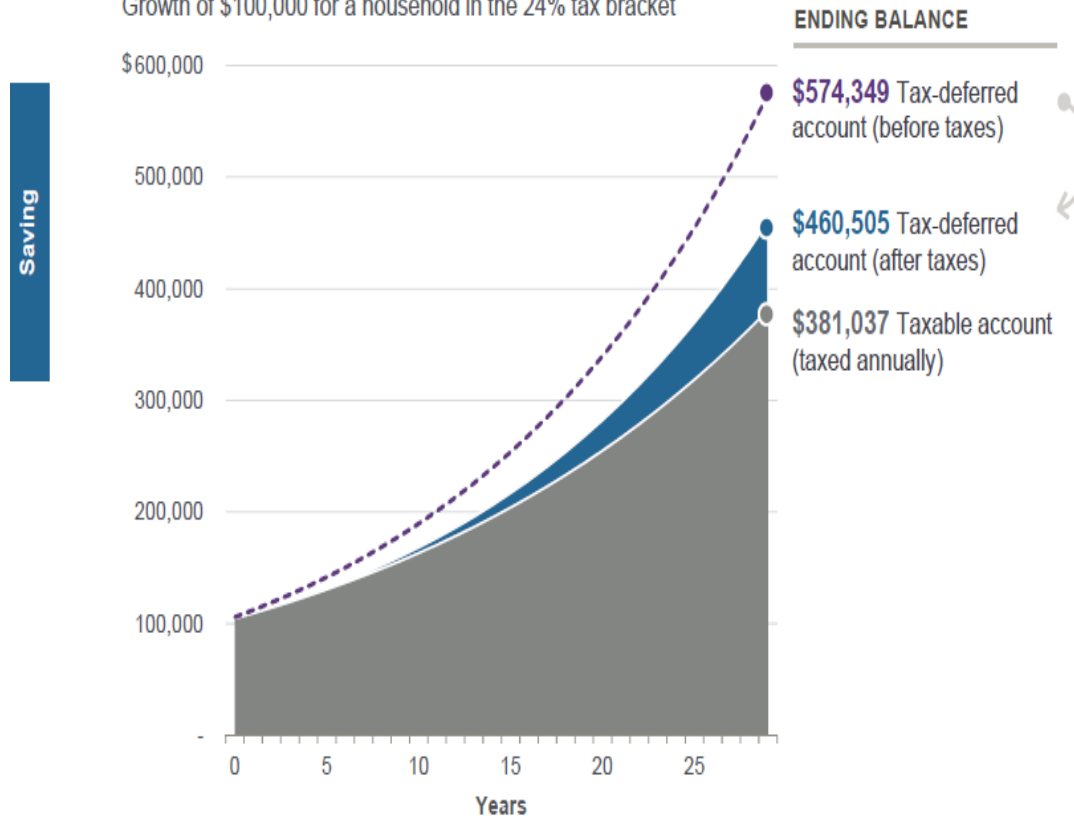
# TAKE ADVANTAGE OF TAX DEFERRED INVESTMENT OPTIONS

The power of tax-deferred compounding

| 18

## Taxable vs. tax-deferred investing over a 30-year timeframe

Growth of \$100,000 for a household in the 24% tax bracket



### TAXES CAN WAIT

Sheltering investment growth in tax-deferred accounts over the long term may result in more wealth for retirement. The value of tax deferral in this example is equivalent to a 0.7% higher annual return over the time period.

# HEALTH SAVINGS ACCOUNTS (HSA) ARE VALUABLE, CORE LONG TERM INVESTMENT VEHICLES

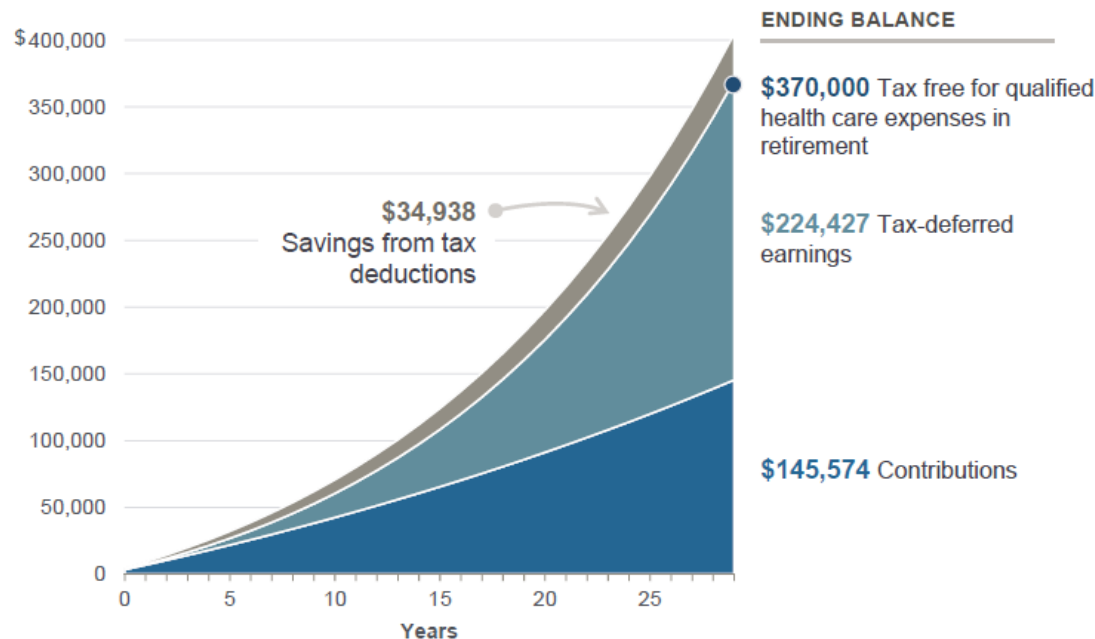
Family maximum contribution of \$6,900; single maximum contribution of \$3,450

Maximizing an HSA for health care expenses in retirement

| 20

## Health Savings Account (HSA) savings are triple tax advantaged<sup>1</sup>

Maximum annual individual contributions, 6% return and 24% marginal tax rate



### MAKE THE MOST OF IT

If you are enrolled in a high-deductible health plan, be sure to contribute to an HSA.

Investing your HSA contributions for the long term and paying for current health care expenses out of income or short-term savings can provide significant tax-free funds for health care expenses in retirement.

<sup>1</sup> Must have a qualifying high-deductible health plan to make contributions. After age 65 funds in the HSA may be withdrawn tax free for qualified medical expenses or withdrawn at ordinary income tax rates for other expenses. See IRS Publication 502 for details.

The above example is for illustrative purposes only and not indicative of any investment. Federal taxes; states may differ. Does not include account fees. Present value of illustrated HSA after 30 years is \$189,803. If the annual tax deduction is invested with an after-tax return of 4.56%, the cumulative hypothetical return is \$34,809. Assumes cash or income used for health care expenses is not withdrawn from an account with a tax liability. The example assumes the HSA is fully invested; if \$2,000 was held in a cash account the illustrated cumulative HSA account value would be \$360,516. 2018 contribution limit is \$3,450 adjusted for inflation of 2.25% for 30 years.

Saving

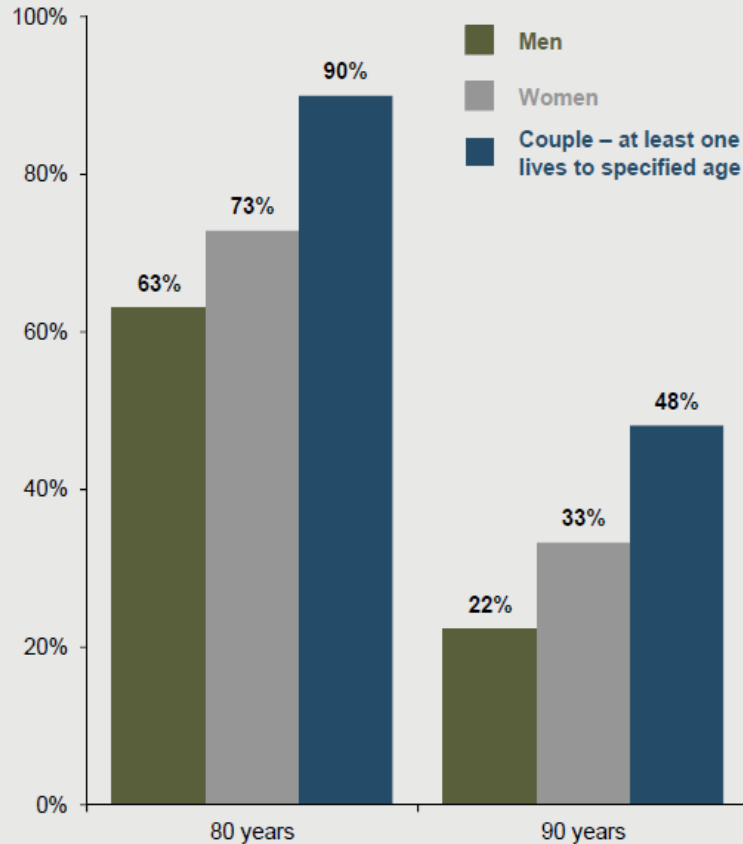


# EVEN IN RETIREMENT, A LONG TERM APPROACH IS OFTEN WARRANTED

Investing principles

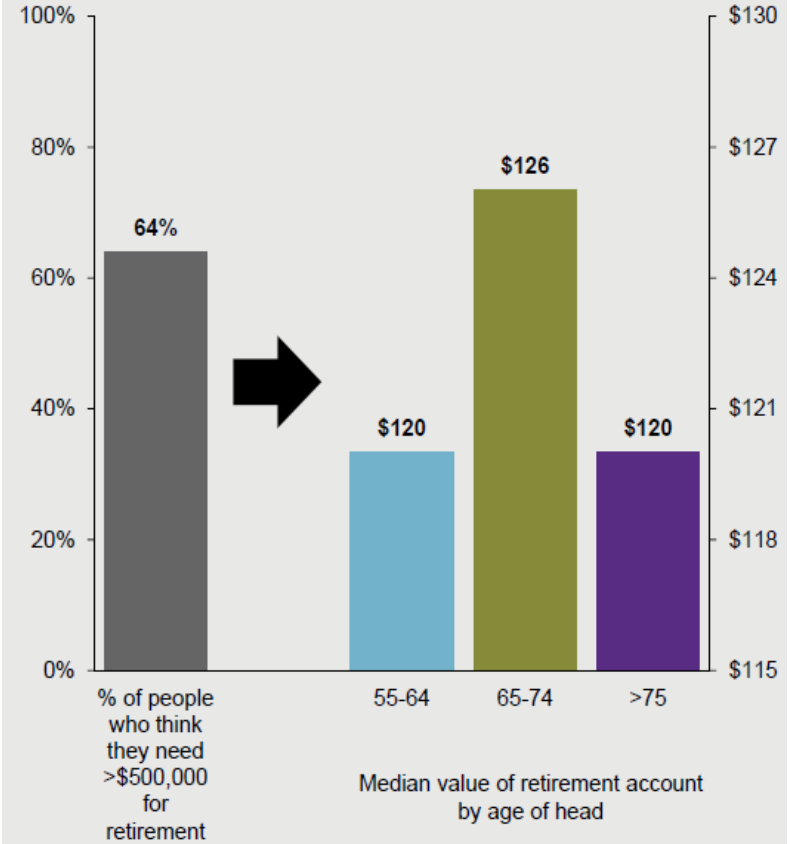
## Probability of reaching ages 80 and 90

Persons aged 65, by gender, and combined couple



## Retirement savings gap

Anticipated amount needed vs. actual savings, thousands



Source: J.P. Morgan Asset Management; (Left) SSA 2015 Life Tables; (Right) 2017 Retirement Confidence Survey, Employee Benefit Research Institute and Greenwald & Associates; 2016 Survey of Consumer Finances, Federal Reserve. EBRI survey was conducted from January 6, 2017 to January 13, 2017 through online interviews with 1,671 individuals (1,082 workers and 589 retirees) ages 25 and older in the United States.



# QUESTIONS?



Thank You,

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