Ways to Decrease the Level of Stress and Anxiety Associated with Investing

Robert S LaGrant, CFP®
Client Advisor
Robert.s.lagrant@jpmorgan.com
414-977-2014

This material is intended to help illustrate the financial consequences of the concepts and strategies discussed here in very general terms. **J.P. Morgan Chase & Co. and its affiliates and/or subsidiaries do not practice law, and do not give tax, accounting or legal advice, including estate planning advice.** The strategies found herein often involve complex tax and legal issues and are provided only for educational purposes. We are, however, pleased to consult with clients and their legal and tax advisors as they move forward with planning.

Investments

What is Investing?

When you invest your money, you purchase assets that you expect will give you a return.

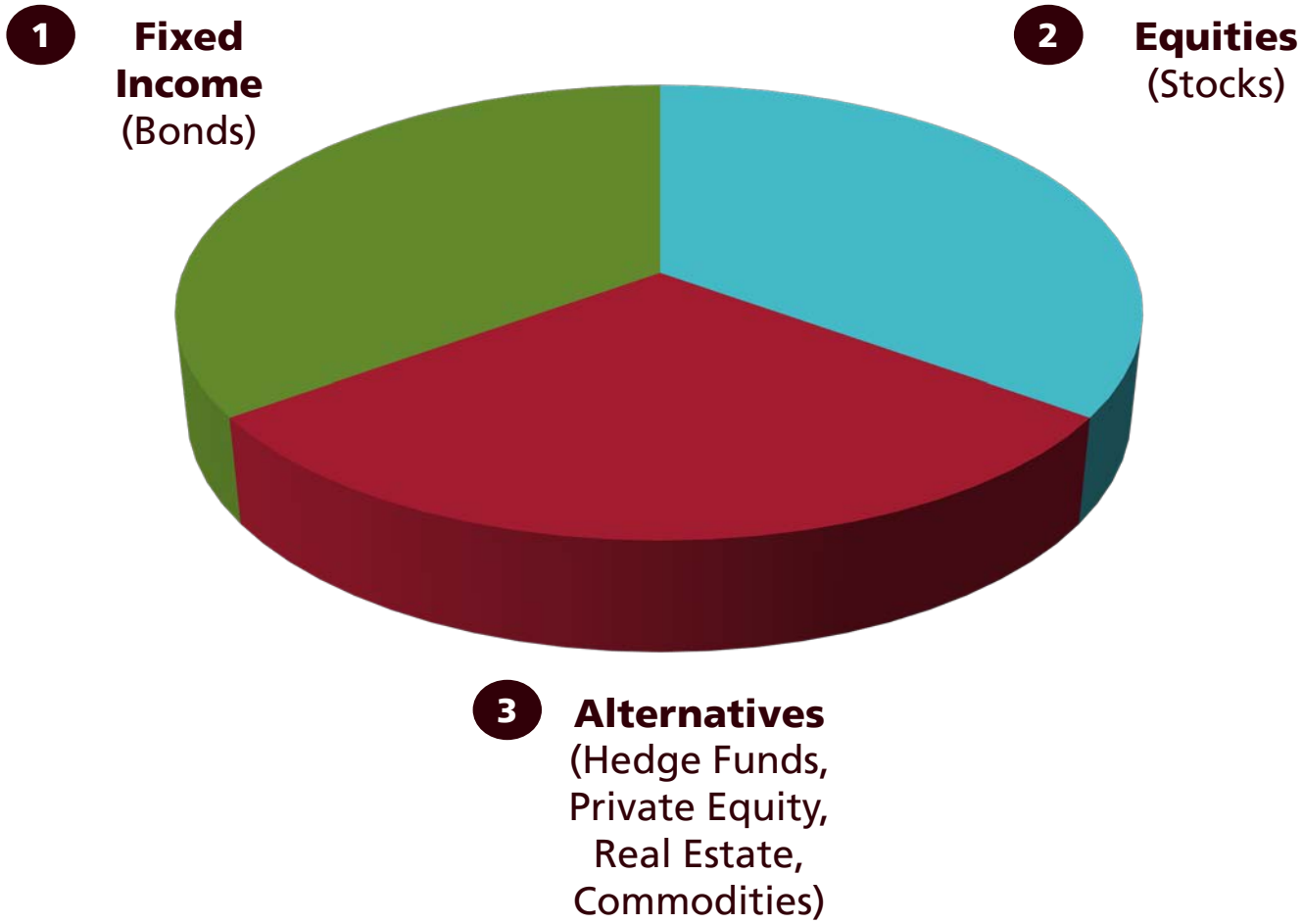
Interest on a government bond, dividends paid by a company in which you own stock, and the appreciation in the value of real estate are all examples of return on investment.

As an introduction to investing, let's look at the following topics:

- **Types of Assets**
  - Fixed Income
  - Equities
  - Alternatives
- **Risk vs. Return**
- **Beginning to Invest**

Types of Assets

There are three broad categories of assets that you can own in an investment portfolio



Bonds – What is a Bond?

- A bond is any interest-bearing or discounted government or corporate security that obligates the issuer to pay the bondholder a specified sum of money, usually at specific intervals, and to repay the principal amount of the loan at maturity
  - A bond is nothing more than a loan of which **you** are the **lender**
  - The organization that initially sells a bond is known as the issuer
  - You can think of it as an IOU given by a **borrower (the issuer)** to a **lender (the investor)**
- Of course, the borrower must pay the investor something extra for the privilege of using his or her money. This "extra" comes in the form of interest payments, which are made at a predetermined rate and schedule
- Bonds are also referred to as "fixed income" investing

Bonds – Types of Bonds

While there are many different types of fixed income securities, the US bond market can be broadly divided into three categories:

Treasury Bonds

- US Treasury bonds are the debt obligations of the federal government
- As it is reasonable to assume that the federal government will make good on its promised payments, these bonds have virtually no default risk (as such, US government securities are known as risk-free assets)
- Please note, however, that treasury bond prices decline when interest rates rise, so they are not free of risk

Municipal Bonds

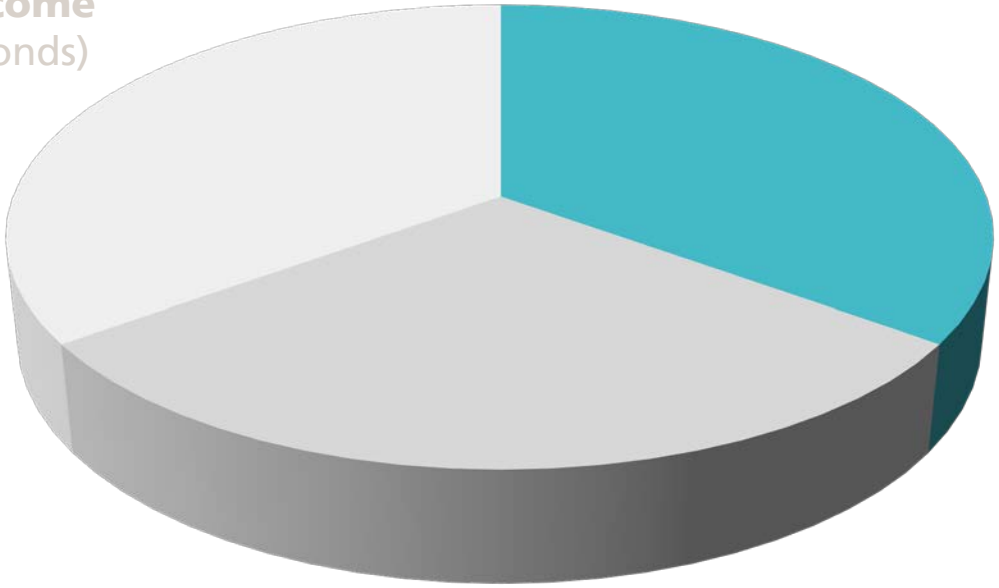
- Municipal bonds are the debt obligations of state or local government entities
- Mature anywhere from 1 month to 40 years
- Interest earned on municipal bonds is exempt from federal taxes and from state and local taxes under certain conditions
- Municipal bonds offer lower interest rates than corporate bonds because of this tax-exemption
- Attractive to high income tax-bracket investors

Corporate Bonds

- Corporate bonds are the debt obligations of private sector companies
- Riskier than government bonds, but offer a higher yield
- Offer short-, medium-, and long-term maturities
- Highly-rated corporate bonds carry little risk
- Interest earned on corporate bonds is taxable

Types of Assets

There are three broad categories of assets that you can own in an investment portfolio



Stocks – What is a Stock?

- Stocks reflect a person's ownership of a corporation represented by shares that are a claim on the corporation's earnings and assets. (Your claim on assets is only relevant if a company goes bankrupt. In case of liquidation, you will receive what is left after all the creditors have been paid)
  - Stocks are pieces of the corporate pie. When you buy stocks (a/k/a shares), you own a slice of the company
  - A corporation's **shareholders** all have **equity** in the company, or own a fractional portion of the whole. They buy the stocks because they expect to profit when the company profits
- Owning stock gives you the right to vote on important company issues and policies
- A stock's value can change at any moment, depending on market conditions, investor perceptions, or a host of other issues
- Stocks that pay regular dividends are known as **income stocks**. Stocks that pay little or no dividend while reinvesting their profit are known as **growth stocks**

Stocks were once represented by stock certificates. In the digital age, investors generally do not actually see this document because the broker keeps the records electronically.

Stocks – Market Capitalization

- Market capitalization (market cap) is a measure of a company's size
  - **Market cap = total number of shares outstanding × share price**
- Brokerages vary on their exact definitions, but the current approximate classes of market capitalization are:

Large Cap $10 billion+	– Generally, these are the largest and most recognizable companies, such as Yahoo, IBM, and GE – Large cap stocks are considered to be relatively stable and secure. Many large cap stocks are referred to as "blue chips" (meaning securities from a well-established and financially-sound company that has demonstrated its ability to pay dividends in good times and bad)
Mid Cap $2-10 billion	– These are generally mid-sized to smaller companies not as widely recognized, such as Office Depot and Panera Bread – Mid cap companies are generally considered to be more volatile than the large cap companies. Some of the companies might not be industry leaders, but they are well on their way to becoming one
Small Cap below $2 billion	– Small caps are typically new or relatively young companies – Although their track records are not as lengthy as those of large caps, small caps often present the possibility of greater capital appreciation, at the cost of greater risk

Stocks – Investing Internationally

- The ability to invest in foreign companies (e.g., Nestlé, Toyota) has increased dramatically with the globalization of equity markets
- By buying securities in different markets (as opposed to purchasing only US securities), you can reduce the impact of country- or region-specific risk, and possibly increase returns

Developed Markets

- Countries with well-established capital markets and modern economies
- E.g., US, EU, Japan, and Australia
- Growth tends to be slow and stable
- Developed markets are typically democracies that follow the rule of law and have effective governance. This contributes to political and social stability, which reduces the risk of investing in these countries

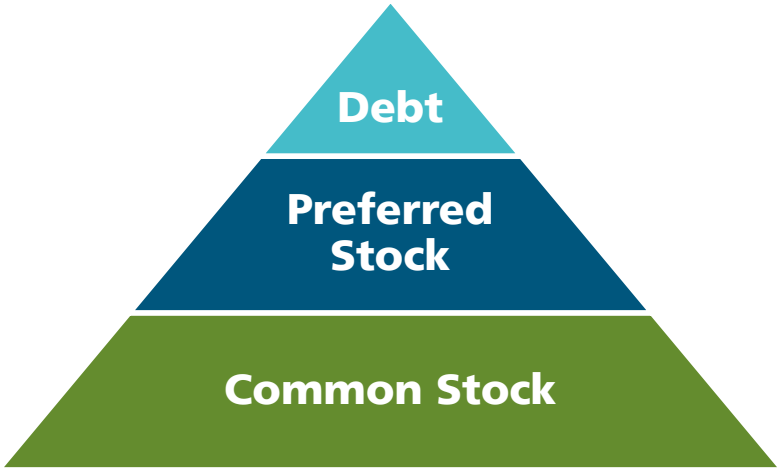
Emerging Markets

- Countries that are starting to participate in the global economy by implementing reforms programs and undergoing economic improvement
- E.g., Brazil, China, and Mexico
- Growth is faster and more volatile
- Because emerging markets are in political and economic transition and hence not stable, investing in these countries is a greater risk

Bonds vs. Stocks

Bonds	Stocks
– Bondholders own debt – Owning debt gives bondholders a higher claim on assets in the event of bankruptcy – Bondholders do not share in a company's profits—they are entitled only to the bond principal plus interest – Bonds generally carry little to no risk, but this comes at the cost of a lower return – Some bonds (municipals) will carry the benefit of being tax-exempt	– Shareholders own equity – If a company goes bankrupt, shareholders only receive assets unclaimed by the company's creditors (often nothing) – Shareholders share in the company's profits and may be paid regular dividends – Stocks are more volatile and therefore more risky than bonds, but generate a higher return – Capitals gains and dividends paid on stocks will be taxed

The company's capital structure determines the order in which shareholders or bondholders get paid. Debt is the most senior and common equity is the least.



Bonds vs. Stocks (continued)

What are some of the key risks to investments in bonds and stocks?

Risk	Bonds	Stocks
Price Risk	Investors are exposed to the risk that the value of their holdings may decline in the future. For bonds, price risk is caused by changes in interest rates	Investors are exposed to the risk that the value of their holdings may decline in the future. For common stock, it is the risk that you will lose money due to a fall in the market price of a stock you own
Default (Credit) Risk	Investors risk that the issuer may be unable to make timely principal and interest payments. Default risk is gauged by credit agencies (e.g., Standard & Poor's, Moody's Investor Services)	If the company goes bankrupt, bondholders are senior to shareholders in the company's capital structure and get paid first. Shareholders would likely lose their entire investment
Inflation Risk	Inflation (purchasing-power) risk is the risk that the investment will not grow at a rate in excess of inflation (and hence the real return will be negative)	Inflation (purchasing-power) risk is the risk that the investment will not grow at a rate in excess of inflation (and hence the real return will be negative)
Exchange Rate Risk	For income received in a foreign currency, this is the risk that the foreign currency will depreciate (lose value) relative to the domestic currency	For income received in a foreign currency, this is the risk that the foreign currency will depreciate (lose value) relative to the domestic currency
Liquidity Risk	Investors risk that they cannot sell their bond at its true value	Investors risk that they cannot sell their stock at its true value
Call/Reinvestment Risk	Investors risk that the borrower can shorten the maturity of the bond (i.e., callable bonds), and that future proceeds will have to be reinvested at a lower potential return	Unlike bonds, common stocks are not subject to call

Getting Exposure – Mutual Funds

What are mutual funds?

- A mutual fund is a collection of stocks, bonds, or other securities owned by a group of investors and managed by a professional investment company
- Investors put money into a fund that is then pooled with other investors' money to create much larger buying power than what each would have individually
- Open-end fund
  - All shareholders share equally in the gains and losses of the fund
  - Shares are redeemable daily on demand at the net asset value of the fund
- Closed-end fund
  - A fund with a fixed number of shares, usually listed on an exchange
  - Shares are not redeemable and are usually sold at a discount to net asset value through the exchange

Why invest in mutual funds?

- Mutual funds diversify across multiple securities
- In some cases, mutual funds diversify across multiple industry sectors
- Investors in mutual funds benefit from the research, security selection, and active management of a professional money manager

Getting Exposure – Exchange-Traded Funds (ETFs)

What are ETFs?*

- An ETF is a security that tracks an index, a commodity, or a basket of assets and trades on an exchange like stock
- A well-known index is the Standard & Poor's 500, or S&P 500. This index is based upon the market capitalizations of 500 large companies whose shares trade on either the New York Stock Exchange or the NASDAQ and is considered to be generally indicative of the entire US economy
- The Spider (SPDR) is an ETF that tracks the S&P 500. When the index is up, the value of the ETF rises. When the index is down, the value of the ETF falls
- ETFs are a passive strategy that do not attempt to outperform the market, but rather mirror the performance of the index

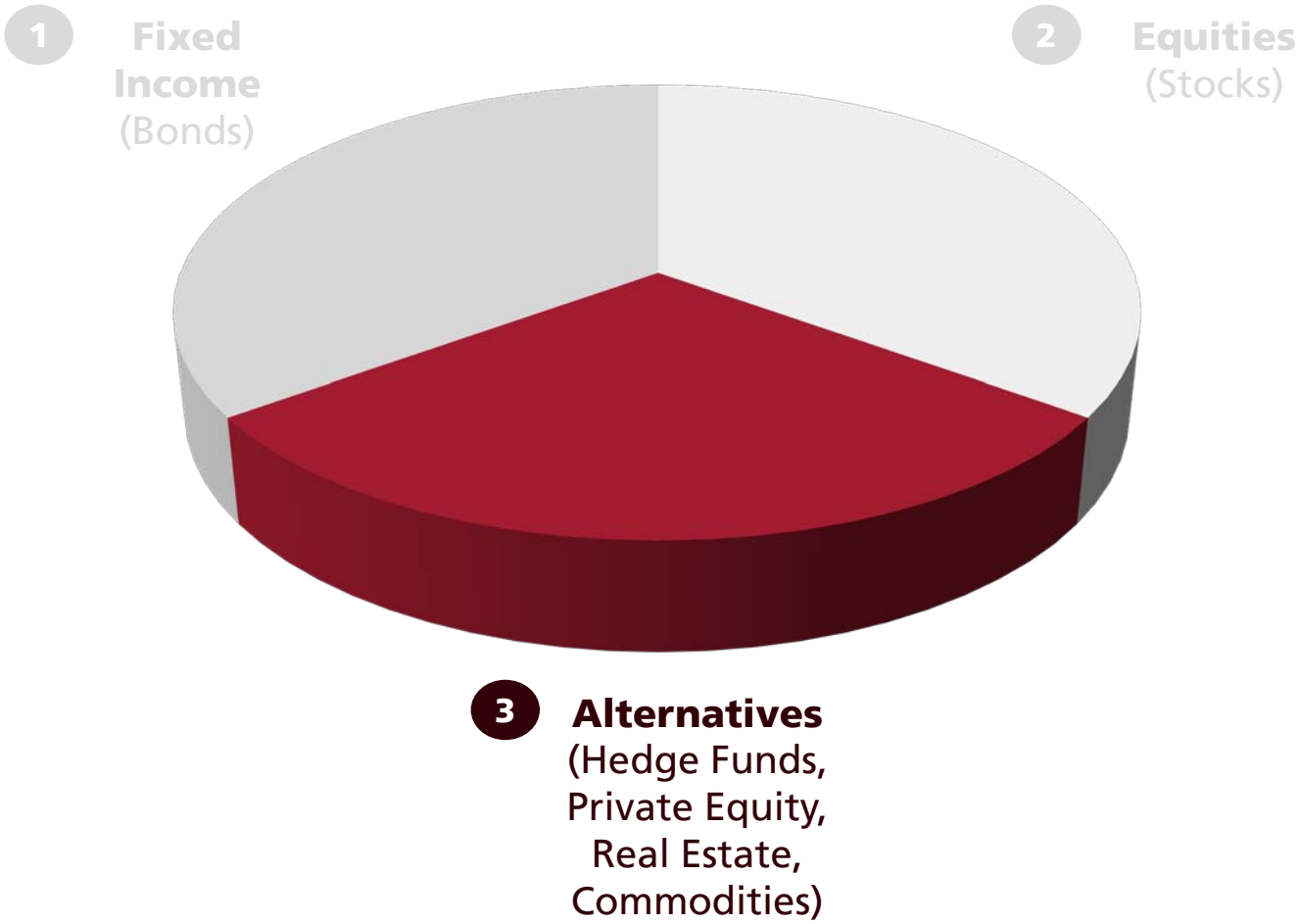
Why invest in ETFs?

- ETFs carry with them the diversification of an index fund. The S&P 500, for example, is broadly weighted across multiple industry sectors
- Unlike mutual funds, ETFs trade intraday, allowing the investor to short, buy on margin, etc.

*Not all ETFs are created equal.

Types of Assets

There are three broad categories of assets that you can own in an investment portfolio



Alternative Investments

Broadly speaking, alternative investments ("alternatives") are any investments that are not bonds or stocks.

Alternatives include:

Hedge Funds	**Private Equity**
Real Estate	**Commodities**

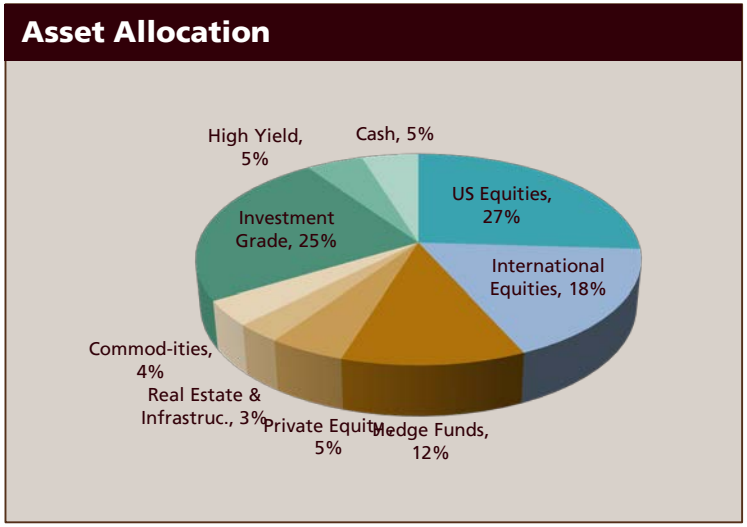
Alternative Investments – Key Risks

Alternatives can be highly risky investments, and investors stand to lose up to the full amount of capital invested.

Risk	Hedge Funds	Private Equity	Real Estate	Commodities
Transparency	The hedge fund industry is largely unregistered and loosely regulated with little or no public market coverage. Investors are reliant on the manger for the availability, quality, and quantity of information	With little or no market coverage, it can be difficult to obtain information regularly	With little or no market coverage, it can be difficult to obtain information regularly	
Event	Given their niche specialization, major shifts in the markets can affect some hedge fund strategies more adversely than others	Private equity funds make capital calls upon their investors. Investors must be able to come up with the liquidity when the capital calls is made	A change in zoning laws or a hurricane that causes significant property damage are example of events that could affect the value of a property	The production of commodities can be affected by war, strikes, or the actions of governments. Weather is always a wild card and can seriously affect the prices of agricultural commodities
Manager	The performance of hedge funds is more dependent on manger-specific skills, rather than broad exposure to a particular market	All decisions are made by the general partner/manager and/or advisor, generally with no influence from investors	If investing in an real estate fund, all decisions are made by the general partner/manager and/or advisor, generally with no influence from investors	
Liquidity	Invested capital is generally less accessible that that of traditional asset classes. It is common for hedge fund investments to offer only quarterly or annual liquidity	Invested capital is generally inaccessible throughout the multi-year term of the investment and the units are not saleable	Invested capital is generally inaccessible throughout the multi-year term of the investment	
Leverage	Hedge funds often use leverage, sometimes at significant levels, to enhance potential returns. Over-leveraging may be a risk	Private equity funds often use leverage, sometimes at significant levels, to enhance potential returns. Over-leveraging may be a risk	Investments in real estate do not necessarily, but may use a significant level of leverage	
Volatility	Hedge funds have a variety of strategies at their disposal to minimize volatility, but are not always successful in this regard	Investments in early-stage, privately-held companies or opportunistic market themes are typically volatile and therefore more exposed to risk	Investments in real estate can experience significant fluctuations in price based on the broader market (e.g., the collapse of the housing bubble during the 2007-2009 recession)	Because commodities are typically traded in highly-leveraged futures contracts, returns are highly sensitive to fluctuations in a commodity's price

Risk vs. Return – A Balanced Portfolio

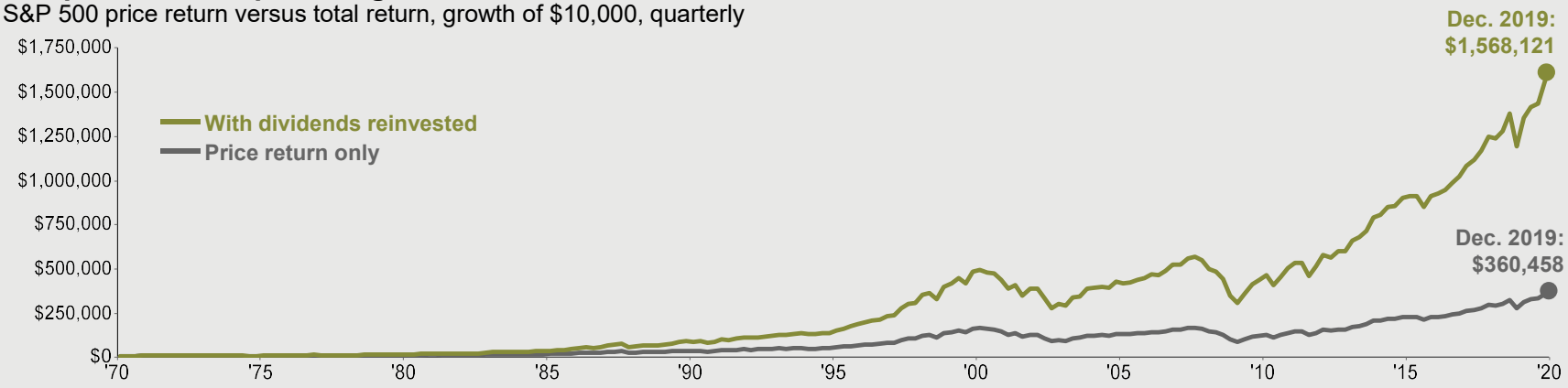
- As we have seen, every type of asset carries with it some degree of risk
- In general, the greater the risk in the investment, the greater the possible return, or, consequently, the greater the potential loss
- Stocks are higher risk; they offer greater potential for loss (or gain)
- Bonds are typically lower risk; however, they offer little opportunity for significant return
- It is important to have a balanced portfolio, meaning that your investments are a combination of high-risk and low-risk investments



Here is an example of an individual's asset allocation, with several investments that are high-risk as well as low-risk. This is called a balanced portfolio.

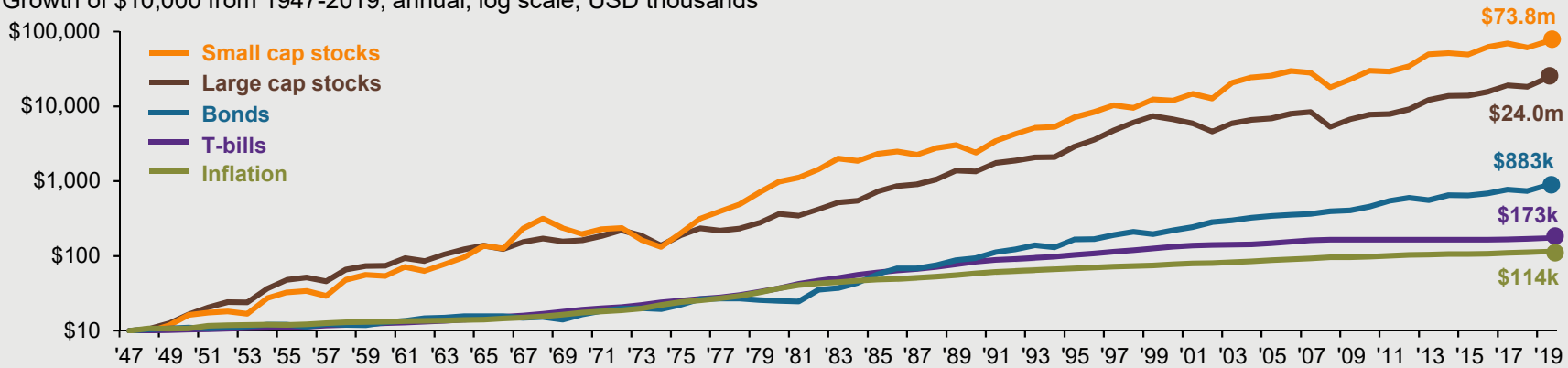
The power of compounding

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



Major asset classes versus inflation

Growth of $10,000 from 1947-2019, annual, log scale, USD thousands



Source: Ibbotson, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of September 30, 2020.

Risk vs. Return – Thoughts for Young Investors

- Risk versus return is a trade-off every investor must make
- Investors makes the decision about risk vs. return by how they allocate their portfolios
- As a young investor still of working age, you are probably more likely to take more risk than an older investor would be
  - Young investors often allocate their portfolios to stocks and riskier assets likely to see high levels of future growth
  - With retirement years away, young investors have more time to let their investments grow before they are likely to need them
- A qualified investment advisor can help you determine what is the appropriate level of risk given your circumstances and recommend strategies for portfolio allocation

Beginning to Invest

Keep current on world events and the financial news

- Money never sleeps: inform yourself and stay up-to-date
- Reading at least one daily newspaper will help you stay on top of the financial markets
- *The Wall Street Journal* is a good place to start

Do your research on the investment

- Being a well-informed investor is key to being a successful investor
- Before making any investment, you should learn about it and track its performance

In addition to the newspaper, the following websites can be good sources for financial news:

- Bloomberg
- Google Finance
- MarketWatch
- Morningstar
- Yahoo Finance

IMPORTANT INFORMATION

KEY RISKS.

This material is for information purposes only, and may inform you of certain products and services offered by J.P. Morgan's wealth management businesses, part of JPMorgan Chase & Co. ("JPM"). Products and services described, as well as associated fees, charges and interest rates, are subject to change in accordance with the applicable account agreements and may differ among geographic locations. Not all products and services are offered at all locations. If you are a person with a disability and need additional support accessing this material, please contact your J.P. Morgan team or email us at accessibility.support@jpmorgan.com for assistance. **Please read all Important Information.**

GENERAL RISKS & CONSIDERATIONS. Any views, strategies or products discussed in this material may not be appropriate for all individuals and are subject to risks. **Investors may get back less than they invested, and past performance is not a reliable indicator of future results.** Asset allocation/diversification does not guarantee a profit or protect against loss. Nothing in this material should be relied upon in isolation for the purpose of making an investment decision. You are urged to consider carefully whether the services, products, asset classes (e.g., equities, fixed income, alternative investments, commodities, etc.) or strategies discussed are suitable to your needs. You must also consider the objectives, risks, charges, and expenses associated with an investment service, product or strategy prior to making an investment decision. For this and more complete information, including discussion of your goals/situation, contact your J.P. Morgan team.

NON-RELIANCE. Certain information contained in this material is believed to be reliable; however, JPM does not represent or warrant its accuracy, reliability or completeness, or accept any liability for any loss or damage (whether direct or indirect) arising out of the use of all or any part of this material. No representation or warranty should be made with regard to any computations, graphs, tables, diagrams or commentary in this material, which are provided for illustration/reference purposes only. The views, opinions, estimates and strategies expressed in this material constitute our judgment based on current market conditions and are subject to change without notice. JPM assumes no duty to update any information in this material in the event that such information changes. Views, opinions, estimates and strategies expressed herein may differ from those expressed by other areas of JPM, views expressed for other purposes or in other contexts, and **this material should not be regarded as a research report**. Any projected results and risks are based solely on hypothetical examples cited, and actual results and risks will vary depending on specific circumstances. Forward-looking statements should not be considered as guarantees or predictions of future events.

Nothing in this document shall be construed as giving rise to any duty of care owed to, or advisory relationship with, you or any third party. Nothing in this document shall be regarded as an offer, solicitation, recommendation or advice (whether financial, accounting, legal, tax or other) given by J.P. Morgan and/or its officers or employees, irrespective of whether or not such communication was given at your request. J.P. Morgan and its affiliates and employees do not provide tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any financial transactions.

LEGAL ENTITY, BRAND & REGULATORY INFORMATION

In the **United States**, bank deposit accounts and related services, such as checking, savings and bank lending, are offered by **JPMorgan Chase Bank, N.A.** Member FDIC.

JPMorgan Chase Bank, N.A. and its affiliates (collectively **"JPMCB"**) offer investment products, which may include bank-managed investment accounts and custody, as part of its trust and fiduciary services. Other investment products and services, such as brokerage and advisory accounts, are offered through **J.P. Morgan Securities LLC ("JPMS")**, a member of FINRA and SIPC. Annuities are made available through Chase Insurance Agency, Inc. (CIA), a licensed insurance agency, doing business as Chase Insurance Agency Services, Inc. in Florida. JPMCB, JPMS and CIA are affiliated companies under the common control of JPM. Products not available in all states.

With respect to countries in **Latin America**, the distribution of this material may be restricted in certain jurisdictions. We may offer and/or sell to you securities or other financial instruments which may not be registered under, and are not the subject of a public offering under, the securities or other financial regulatory laws of your home country. Such securities or instruments are offered and/or sold to you on a private basis only. Any communication by us to you regarding such securities or instruments, including without limitation the delivery of a prospectus, term sheet or other offering document, is not intended by us as an offer to sell or a solicitation of an offer to buy any securities or instruments in any jurisdiction in which such an offer or a solicitation is unlawful. Furthermore, such securities or instruments may be subject to certain regulatory and/or contractual restrictions on subsequent transfer by you, and you are solely responsible for ascertaining and complying with such restrictions. To the extent this content makes reference to a fund, the Fund may not be publicly offered in any Latin American country, without previous registration of such fund's securities in compliance with the laws of the corresponding jurisdiction. Public offering of any security, including the shares of the Fund, without previous registration at Brazilian Securities and Exchange Commission—CVM is completely prohibited. Some products or services contained in the materials might not be currently provided by the Brazilian and Mexican platforms.

References to "J.P. Morgan" are to JPM, its subsidiaries and affiliates worldwide. "J.P. Morgan Private Bank" is the brand name for the private banking business conducted by JPM. This material is intended for your personal use and should not be circulated to or used by any other person, or duplicated for non-personal use, without our permission. If you have any questions or no longer wish to receive these communications, please contact your J.P. Morgan team.