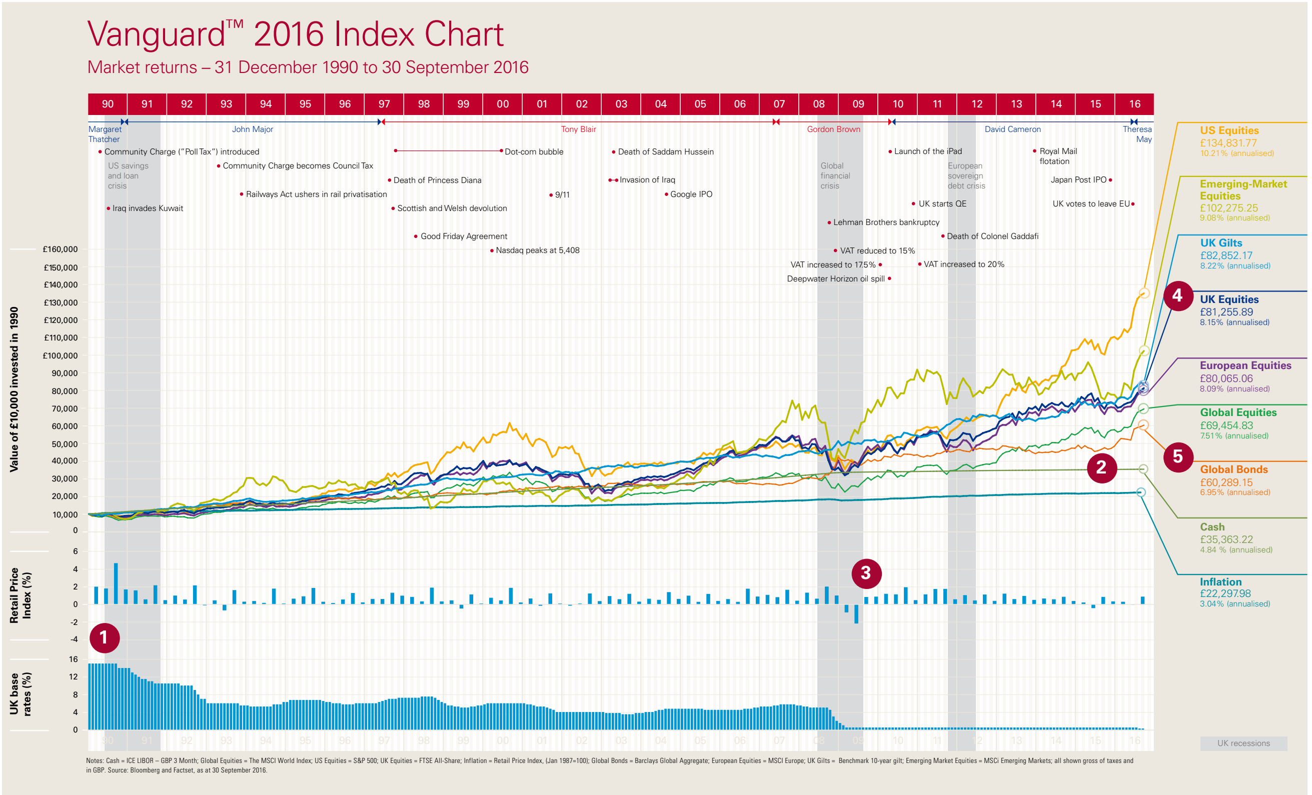
Vanguard Index Chart – talking points

There are a few important points that this chart can help advisers to make with their clients. Each of these points relates to the corresponding label on the chart to the right:

1. **Interest rates continue to be low, but don't get too used to it**
2. **Cash on deposit is losing value**
3. **The economy ≠ the market**
4. **What to expect from equities**
5. **What to expect from bonds**

See overleaf for more information to help you discuss these points with your clients.



To be used in conjunction with the brochure or full-sized poster versions of the Vanguard Index Chart, both of which are available from Vanguard's Adviser Support team on 0800 917 5508.

Past performance is not a reliable indicator of future results.
The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

1. **Interest rates continue to be low, but don't get too used to it.** Base rates have been below 1% for more than seven years and were cut to a new all time low of 0.25% in August 2016. However, this won't be the case for ever. The Bank of England is likely to begin normalising rates as soon as they think the economy is strong enough. It's not clear when that will start to happen, but we can safely predict that rates are going to be higher in the future than they are today.

2. **Cash on deposit is losing value.** Because inflation has been higher than base rates over the past few years, cash held in most deposit accounts has been losing value in real terms – illustrated by the inflation line closing in on the cash line on the chart. The point of investing is to preserve and grow the value of your assets in real terms, and this chart tells us that cash hasn't been doing that job.

3. **The economy ≠ the market.** In the first half of 2009, the economy was in recession and we were experiencing deflation. Many investors would assume that this would be a bad environment for investing in equities, but in fact the opposite was true: stock markets were very strong during this period. Market performance is not correlated to the performance of the underlying economy, so tune out the economic noise and focus on the long term.

4. **What to expect from equities.** Global equities produce better long-term returns than global bonds or cash, but with higher levels of short-term volatility. The longer your time horizon, the more likely it is that the superior long-term returns produced by equities will outweigh their higher short-term volatility. While we're on the subject of equities, you may notice that global equities have produced lower returns than US, European and UK equities. The answer to this lies in Japan, which is a significant proportion of the global equity market but is not featured on the chart. Japan produced very poor returns over the period in question, dragging down the global number.

5. **What to expect from bonds.** If you look at the periods on the chart when equities have been performing badly, bonds have at the very least acted as a shock absorber by falling less than equities – and in many cases they have offset equity losses by performing strongly. Bond and equity prices have different drivers, which means that bonds are an excellent diversification and risk control tool in portfolios.

Vanguard®

Connect with Vanguard™

vanguard.co.uk
Adviser Support
0800 917 5508

VAM-2016-10-28-4019