Providing Perspective on Equity Returns (1825-2014)

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Return range	Years
(50)-(40)%	1931
(40)-(30)%	2008, 1937
(30)-(20)%	2002, 1974, 1930, 1907, 1857, 1839
(20)-(10)%	2001, 1973, 1966, 1957, 1941, 1920, 1917, 1910, 1893, 1884, 1873, 1854, 1841, 1837, 1831, 1828, 1825
(10)-0%	2000, 1990, 1981, 1977, 1969, 1962, 1953, 1946, 1940, 1939, 1934, 1932, 1929, 1914, 1913, 1903, 1890, 1883, 1882, 1876, 1861, 1860, 1853, 1851, 1845, 1835, 1833, 1827
0-10%	2011, 2007, 2005, 1994, 1993, 1992, 1987, 1984, 1978, 1970, 1960, 1956, 1948, 1947, 1923, 1916, 1912, 1911, 1906, 1902, 1899, 1896, 1895, 1894, 1891, 1889, 1888, 1887, 1881, 1877, 1875, 1874, 1872, 1871, 1870, 1869, 1868, 1867, 1866, 1865, 1859, 1856, 1844, 1842, 1840, 1836, 1826
10-20%	2014, 2012, 2010, 2006, 2004, 1988, 1986, 1979, 1972, 1971, 1968, 1965, 1964, 1959, 1952, 1949, 1944, 1926, 1921, 1919, 1918, 1905, 1904, 1898, 1897, 1892, 1886, 1878, 1864, 1858, 1855, 1850, 1849, 1848, 1847, 1838, 1834, 1832, 1829
20-30%	2009, 2003, 1999, 1998, 1996, 1983, 1982, 1976, 1967, 1963, 1961, 1951, 1943, 1942, 1925, 1924, 1922, 1915, 1909, 1901, 1900, 1880, 1852, 1846
30-40%	2013, 1997, 1995, 1991, 1989, 1985, 1980, 1975, 1955, 1950, 1945, 1938, 1936, 1927, 1908, 1830
40-50%	1958, 1935, 1928, 1863, 1843
50-60%	1954, 1933, 1885, 1879, 1862

Source: Value Square Asset Management, A New Historical Database for the NYSE 1815 to 1925: Performance and Predictability, Yale School of Management working paper 2000; Ibbotson & Associates SBBI data. Past performance is no guarantee of future results. This chart is for illustration purposes only and does not represent returns of any specific investments.

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Equity Returns 1825-2014 – What This Means to an Equity Investor

This chart is known as a “histogram.” It lists the historical returns of investing in common stocks (equities) by classifying calendar-year returns into equal intervals (ranges) of 10 percentage points. Each stack contains a listing of years. The corresponding number below each stack represents the range of return for equities in those individual calendar years.

This histogram goes all the way back to 1825, is culled from various sources and is designed to show the historical performance of U.S. stocks. As you can see, the tallest stack represents the return range for stocks for the greatest number of individual calendar years going back in time.

The stacks to the right of the dotted line in this “histogram” represent years in which the return for equities was positive. Notice how the highest stack is in the 0 percent to 10 percent range. This means that, going back to 1825, the most frequent yearly return for U.S. stocks was in the 0 percent to 10 percent range. The second highest stack is in the 10 percent to 20 percent range. This means, going back to 1825, the second most frequent return for stocks was in the 10 percent to 20 percent range. Notice how there are quite a few calendar years in which the returns were in the range of 20 percent to 30 percent. That 20 percent to 30 percent range includes several years in the late 1990s.

The stacks to the left of the dotted line represent individual years in which stock returns were negative. As you can see, there are a number of years in which the returns for U.S. stocks were in the range that goes from 0 down to -10 percent. You may notice that several of those years were periods in which the economy was at the end of an expansionary period and was entering a recession. Some examples include 2000, 1990, 1981 and 1962.

This histogram gives an excellent visual representation of the distribution of stock returns over a long period of time. Many investors have been taught that holding stocks over long periods of time normally yields positive returns somewhere in and around 10 percent. It also should be mentioned that there can be extended periods in which stock returns are below this.

Another way to look at this histogram is to view it as the volatility of equity returns. Historically, yearly stock returns have clustered within a few of these 10 percent ranges. Extremely high returns in any given year are rare. Extreme negative returns in any given year are even rarer. This can be seen in that there are fewer numbers on the left side of this histogram.

This chart highlights that U.S. stocks were down 38 percent in 2008. Compared to history, this was a rare occurrence. The only other calendar years in which stocks were down more than 30 percent were 1937 and 1931. You might remember that this was during the Great Depression. During periods of severe financial panics and subsequent economic slumps, stocks can fall significantly as investors seek safety and liquidity. To reiterate, very large losses in stocks in any given year are very infrequent events, but they can happen when financial markets are stressed and investors panic.

On the other hand, severe downdrafts in the markets can lead to subsequent large moves on the upside. One of the best annual performances for stocks occurred in 1933, also in the midst of the Great Depression (see the last stack all the way to the right), when the return hit the 50 percent to 60 percent range. The latest financial crisis has followed a similar pattern with two years of consecutive double-digit returns (24 percent in 2009 and 15 percent in 2010).

So why is this important? Despite a wide range of returns, investing in equities has historically been a solid way to accumulate wealth over the long term. Despite some rough times in the economy, stocks can and do “look ahead” to recovery and move higher. In 1982 and 1983, the U.S. was in the midst of a recession with a double-digit unemployment rate. U.S. stocks returned 21 percent in 1982 and 23 percent in 1983.

U.S. stocks may not continue the same pattern as the past 186 years. However, the histogram suggests the long-standing belief that equity investors have been rewarded over the years with more positive years than negative years. Also, the positive return years on average have been greater than the negative return years. With short-term market swings in the news on a daily basis, investors should view their portfolios within their time horizon, and consider their time in the market and their risk tolerance. Past performance is not an indicator of future results.

EquityReturns-Aug2012-V2