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INSIGHTS

A HISTORY OF MARKET RETURNS

Advisors often quote the statistic that stocks have averaged annual returns of 10.3% per year (before inflation) since 1926. As such, most investors expect that the market will move higher by roughly 10% each year. However, the 10.3% number is an average, and in reality, stocks have only returned between 8 and 12% six times over that timeframe (6% over that time). The good news is that the stock market only lost more than 12% seven times (7%) of that time. More importantly, stocks have returned more than 20% thirty-four times (35% of the time).

The breakdown is as follows:

Losses greater than 20% - six years (average loss 31.47%)
Losses between 16 and 20% - none
Losses between 12 and 16% - one year (loss of 14.68%)
Losses between 8 and 12% - eleven years (average loss 9.55%)
Losses between 4 and 8% - three years (average loss 5.48%)
Losses between 4 and 0% - four years (average loss 1.48%)
Gains between 0 and 4% - five years (average gain 1.82%)
Gains between 4 and 8% - nine years (average gain 5.98%)
Gains between 8 and 12% - six years (average gain 11.25%)
Gains between 12 and 16% - five years (average gain 14.26%)
Gains between 16 and 20% - ten years (average gain (17.85%)
Gains greater than 20% - thirty-four years (average gain 31.5%)

Based on the above numbers, with a 73% probability of a positive stock market return in any given year, the odds are stacked firmly in favor of long-term investors, despite the short-term volatility of returns.

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