Reference Points

One of the best and worst parts about the fact we now have such easy access to historical market data is there are plenty of built-in narratives in the performance numbers. It's easy to back up just about any stance on the markets based on how you present your data.

Here's a breakdown of S&P 500 performance (all numbers through 9.30.17) since...

...the start of this year: 14%

...the market bottom in mid-February of 2016: 42%

...the market melted up 32% in 2013: 42%

...the market bottom in March of 2009: 346% (19% annualized)

...Lehman Brothers filed for bankruptcy in September of 2008: 156% (11% annualized)

...the market peak in October of 2007: 100% (7% annualized)

...the dot-com bubble deflated in 2000: 136% (5% annualized)

...Alan Greenspan gave his famous "irrational exuberance" speech in late-1996: 392% (8% annualized)

...just after the 1987 crash: 1851% (10% annualized)

...the start of the bull market in 1981: 4800% (11% annualized)

...the first index fund was created in 1976: 9314% (11% annualized)

...just after the Great Depression in 1933: 873887% (11% annualized)

...1926: 688849% (10% annualized)

Then there's the fact that the S&P 500 wasn't really even created until 1957 (the numbers before that have been pieced together). The numbers themselves never tell the entire story.

Gold is one of my favorite examples of this. Since 1980, the price of gold is up just 2% a year. That means after accounting for inflation it actually has a negative return over the past 40 years or so. But since 1971, when the U.S. went off the gold standard, it's up around 7% per year. And since the year 2000, gold is up 9% a year, handily outpacing the S&P 500, even though it's down more

than 30% since the peak in 2011.

There's ammunition on both sides of the table for those who are for or against gold as a holding.

Japan is another market where you can play games with the numbers. The MSCI Japan Stock Market Index has seen annual returns of 9.3% since 1970. Not as good as the U.S., but not bad. However, the return from 1990-2017 was an annualized return of just 0.37% or a ***total*** return of just 11%.

Think about that. It's been almost 30 years since perhaps the greatest bubble of all-time peaked and since then the market has basically gone nowhere. But from 1970-1989, the annualized return was almost 23% or a total return of more than 6000%.

Should we do one more? Okay, I'll do one more.

Intermediate-term bonds (5-year treasuries) have given investors 7.3% annual returns since 1982. Extending the data back to 1926 shows annual gains of 5.1%. But from 1926-1981, the annual returns were just 3.8%. So the past 40 years or so looks amazing, the past 90 years or so looks pretty darn good, but the period before the double-digit interest rates in the late-1970s and early-1980s looks just okay.

I like to say that the best way to win any argument about the markets is to change your start and end dates. It’s very easy to cherry-pick historical data that fits your narrative to prove a point about the markets. But it's also important to remember that historical market data is full of caveats and deserves context. Even then it doesn't tell you everything you want to know about the future.

These exercises are interesting but rarely tell you much about the average investor's experience in the markets. No one is good enough to invest at the exact bottom or unlucky enough to put all their chips on the table at the exact peak.

And the unpredictable nature of the return streams shown here just goes to show you that risk comes in many different flavors and rarely shows up in the same place at the same time.

Further Reading:
Trading Costs & The New Market Averages