The Stan Clark Financial Team's

PERSPECTIVES

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Asset allocation

Stocks vs. bonds over the past 100 years

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In Aesop's fable *The Tortoise and the Hare*, slow and steady wins the race. But is that really how it works in life? When it comes to investing, slow and steady can be a recipe for near-certain losses.

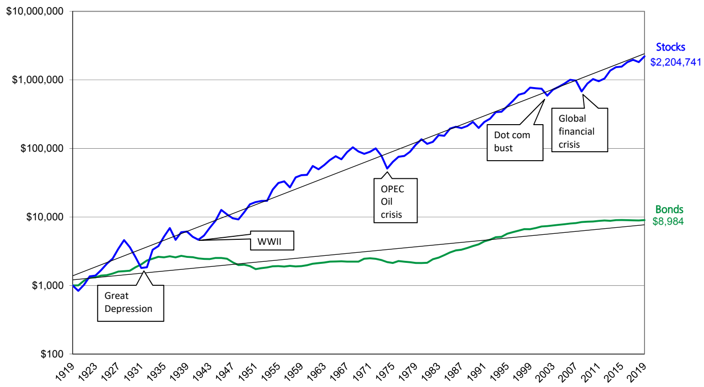
Let's look at stocks-vs.-bonds returns over the past 100 years. Think of *The Tortoise and the Hare* as a story about asset allocation: of bonds, which appreciate slowly and appear reliable; and of stocks, which can appreciate strongly and quickly, but appear risky. Which is your best bet? The answer depends on what kind of race you're running.

The past 100 years have been wildly volatile: inflation, deflation, a deep depression, two global financial crises, explosive growth, two World Wars, embargoes, assassinations and worldwide pandemics. We often forget how frightening things seemed at the time. Although the world may seem scary now, it's likely that the period ahead won't be all that different from some of the periods we've experienced in the past. History repeats itself; you just don't know which part of the past you're going to get! But the past informs the future. By studying history, you can get a good idea of the range of possible outcomes going forward.

Data shows that, over the past 100 years, if you owned equal amounts of Canadian and U.S. stocks you would have enjoyed average annual growth of 10.9% (in Cdn dollars) for an inflation-adjusted (real) return of 8.2%. Over the same period, Canadian bonds averaged 4.9%, or real returns of just 2.3% per year.

The graph shows 100 years of growth in stocks vs. bonds. If you started with $1,000 in each, you would now have over $2.2 million with stocks, but only about $9,000 with bonds. Remember that these are in "real" dollars, after adjusting for inflation.

Real Growth from $1,000 - 1920 to 2019



Source: Siegel, Cdn Institute of Acutaries, TSX, Bank of Canada.

The table shows the average percentage growth in stocks vs. bonds over the past 100 years. It also compares the differences in median total dollar growth over various time horizons.

Growth in stocks vs bonds 1920 to 2019

	Average Nominal Returns	Average Real* Returns	Real growth from $100,000**				
			1 Year	5 Years	10 Years	15 Years	20 Years
Stocks	10.9%	8.2%	$8,214	$53,086	$117,037	$217,046	$372,364
Bonds	4.9%	2.3%	$2,278	$9,790	$19,254	$30,190	$41,351
Inflation	2.6%						
Difference in growth (real $)			+$5,936	+$43,296	+$97,783	+$186,856	+$331,013
Difference in growth	2.2x	3.6x	3.6x	5.4x	6.1x	7.2x	9.0x

Source: Siegel, Cdn Institute of Acutaries, TSX, Bank of Canada.

* "Real" returns are nominal returns after subracting inflation

** "Real growth from $100,000" is the median real growth over different time periods, showing the effect of compounding.

The average real returns from equities were 3.6 times higher than those of bonds. If you started with $100,000 in bonds, this would have grown by about $41,351 after 20 years. The same amount invested in stocks would have grown by $372,364 – nine times as much!

Now, you may be asking: But aren't stocks much riskier than bonds? Yes and no. The stock market is volatile in the short term, making stocks seem risky. But if you invest for the long term, that is, more than 10 years, history shows that down markets have almost always been more than offset by up markets, giving reliable returns for stocks after inflation.

Inflation actually makes bonds *riskier* than stocks over the long term. The return during the worst 10-year period for bonds was 20% lower than the worst 10-year period for stocks. The chance of losing money over any 10-year period was nearly seven times greater for bonds than it was for stocks. Over any 10-year period, stocks did better than bonds 89% of the time. And, over 15 and 20-year periods, stocks beat bonds every time and never failed to beat inflation. The worst return for stocks over 20 years was a profit of $100,708 above inflation! So, based on history, it seems that the longer you can invest for, i.e., your , the less risky stocks are and the riskier bonds become.

The key takeaway here is that one type of asset isn't always better. How long you can invest for is critical in determining the right mix for you. If you only have a few years to invest, then most of your money should be in bonds. If you have savings earmarked for needs five to 10 years or more from now, consider investing more of those savings into stocks. ■

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