

## A Note on Long Term Asset Returns

By Elroy Dimson, Paul Marsh, Mike Staunton

“Long Term Asset Returns”, Financial Market History, CFA Institute Research Foundation, 2016

In 1900, the UK was the largest stock market in the world, accounting for about 25% of the world's market capitalisation. The UK was followed by the United States (15%), Germany (13%) and France (11.5%). Today (early 2016), the picture has changed dramatically. The US is the clear leader, accounting for 52.4% of the global market capitalisation. The other countries are much smaller in comparison: Japan (8.6%), UK (7.1%), Switzerland (3.2%), France (3.1%), Germany (3.1%), Canada (2.5%), Australia (2.4%) and China (2.3%).

The industries dominating the stock market also reflect the progress made by mankind and the innovations introduced by businesses. In 1900, the stock market was dominated by railroads, which accounted for 63% of US market capitalisation and 50% of the UK. By 2015, railroads represented less than 1% of the US market and close to nothing of the UK market. Other industries that have declined in importance are textiles, iron, coal and steel. Some industries remain as important today as they were in 1900. These include banking and insurance, food, beverages, tobacco and utilities. In the US, the largest industries today are technology, oil and gas, banking, healthcare, insurance and retail.

Though there were temporary periods of setback between 1900 and 2015, equities beat bonds and bills in all the 21 countries for which data is available. For the world as a whole, equities outperformed bills by 4.2% per year and bonds by 3.2%. Government bonds were disappointing for investors, fetching an average annualized real return of only 1%. Clearly, investors putting their money in stocks have been well-rewarded for the risks they have taken.

Common currency returns have been quite close to local currency returns. This is because, during the 116 years, currency fluctuations were largely a response to relative inflation. For example, the real dollar/pound exchange rate increased only by 0.22% per year.