Charting your Financial Future

How Asset Areas Have Performed – Decade by Decade from 1970-2020

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Introduction

What is the purpose and objective of this guide?

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The beginning of a new decade is a perfect point to look back and review past decades, as the ten-year point represents a fair period to make judgements, to see clearly the fluctuating nature of different investments and their performance records.

In this case we will focus on asset classes, such as UK and US Shares, Property , Cash and the returns these have produced.

Research and several studies from behavioural finance show that investors are swayed more by recent memory and experience, than longer-term ones.

Investing requires a long-term view.

Therefore, looking back over the past fifty years and taking a decade by decade view of the returns from various assets is intended to highlight just how much 'swing' there is in asset class – or sector – performance.

This, in turn, should emphasise how important it is to take an asset allocation approach when considering an investment portfolio and where the monies – within the portfolio - should be invested.

Asset Classes

Strictly the reference to 'asset classes' should – or could – be referred to as sectors. In relation to the objective and point of this guide, the two titles are inter-changeable.

An asset class or sector describes an investment type or area, such as Shares, Property or Fixed Interest which have distinct and different characteristics. Including their risk levels and likely performance outcomes.

A sector is a more refined description, for example UK Shares and US Shares are different sectors, both represent an investment into Shares, but in companies in different geographical locations. They are therefore distinct sectors.

The asset classes – or sectors - we cover are:

- US Equities
- UK Equities
- Worldwide Equities
- US Bonds
- UK Government Bonds
- Cash
- UK Property
- Gold

Terminology

Some of the terms used may seem confusing. For simplicity the reference to Equities is the same as Shares. In respect of Fixed Interest, we show in the figures 'Bonds' either Government Bonds (in the UK) or Government and Corporate Bonds in the US. We focus on Gold, rather than Commodities, as data about Gold stretches back for the duration and because it acts as a decent proxy for this part of the investment framework.

Asset Classes Continued

The purpose/objective described in the previous segment suggests the asset classes covered in this guide should be major constituents of most investor's portfolios.

We will not cover every asset class, nor will we comment specifically on the historic performance or returns.

These are not relevant to this guide.

We do, however, provide an overview commentary for each decade.

The aim is to show a clear picture of how the returns from various asset classes fluctuate and how this relates to the power of diversifying. Not just to ensure risk management is at the fore, but also to capture optimal performance which means maximising the rewards from a given risk level.

Good portfolio management = using an asset allocation approach = strongly diversifying one's holdings.

The way to achieve this – or to strive for this, at least – is to diversify.

There is one final aspect involved with this, and again this is accentuated by the findings within this guide, which is that an asset allocation approach should be progressive.

This means that the asset allocation, the percentage spilt between the different asset classes should be regularly reviewed and rebalanced. What may work in 2020, in terms of the way the portfolio is spread, may not work in 2024.

For various reasons, as the returns from a portfolio come through, via the underlying holdings, which could include losses in some parts, investors should adjust.

For a more detailed explanation of a progressive asset allocation approach see appendix one at the end of this guide.

All figures within this guide are produced to illustrate the variation in asset/sector returns and are sourced at the end of the guide (appendix three). Whist ensuring accuracy of the figures has been at the forefront of the research, any data should not be relied upon to make decisions about your finances or investments.

Plus, the data is difficult to portray accurately in all cases due to complicating factors, see appendix two.

The 1970s do not include specific numbers as the data for this decade is less easily obtainable and, where available, not consistent with data sets thereafter.

The Five Decades

Period 1970-1979

Good For: Gold, UK Property

Bad For: Equities, Bonds, Cash

This was possibly the most harrowing decade for investors in recent memory. The dominating factor was inflation which averaged an eye watering 13.7% per year.

Notionally Equities and Bonds rose in value throughout the period (example: US Equities by around 5.8% per year total return; US Government Bonds roughly the same) however taking inflation into account, the real return was negative. Investors lost money in these mainstream areas.

- UK Savings Accounts paid between 5% and 8% per year averaging around 6.5% per year.
- Commodities boomed, with returns easily out stripping inflation.
- Gold and Oil both saw very significant price rises.
- UK House Prices quadrupled during the decade.

Period 1980-1989

Good For: Equities, Bonds, Property, Cash

Bad For: Gold

The 1980s was quite an exceptional decade with just about every asset, except for Gold, on a super-charged relentless rise.

However, this was offset to some extent by high inflation and although Equities (Shares) produced impressive returns, they did so against very high interest rates (as shown below by Cash).

- Inflation averaged 6.24% per year

US Equities

The S+P 500 Index grew by close to +18.3% per year using a total return measurement (including dividends) throughout the 1980s

UK Equities

The FTSE All Share Index (total return) grew by + 23.6% per year during the period

Worldwide Equities

Worldwide equities grew by +22% per year

1980 - 1989 Continued

US Bonds

The broad index that measures the performance of Bonds in the US grew by just over +12% per year during the 1980s

UK Government Bonds

Long dated gilts in the UK rose by an average of a tad under +14% per year over the decade

Cash

Interest Rates on UK Savings Accounts returned + 8.9% per year

UK Property

UK House Prices rose by just a little under +11% per year

Gold

The price of Gold fell by about -1.4% per year

Period 1990-1999

Good For: Equities, Bonds, Cash

Bad For: Property, Gold

The 1990s carried on the themes of the 1980s, with popular asset classes, Equities and Bonds producing decent returns. The notable difference was Property, which struggled to keep pace with inflation for most of the decade – indeed Property values fell consistently during the early 1990s.

Inflation was also lower in the 1990s than the 1980s.

It is worth noting in the Equity sector, the big difference between the US/UK Equities and Worldwide Equities, reflecting the struggles of the Japanese market during this period.

- Inflation averaged 3.06% per year

US Equities

The S+P 500 Index (total return) grew by close to +19.1% per year

UK Equities

The FTSE All Share Index (total return) grew by + 14.9% per year during the period

1990 - 1999 Continued

Worldwide Equities

Worldwide Equities grew by +7% per year

US Bonds

The broad index that measures the performance of Bonds in the US grew by around +7.7% per year during the 1980s

UK Government Bonds

Long dated gilts in the UK rose by +13.3% per year over the decade

Cash

Interest Rates on UK Savings Accounts returned + 7% per year

UK Property

UK House Prices rose by just a little under +2% per year

Gold

The price of Gold fell by about -3.1% per year throughout the 1990s

Period 2000-2009

Good For: Bonds, Cash, Property, Gold

Bad For: Equities

The decade was dominated by two major financial catastrophes, the so-called tech crash at the beginning of the decade and the financial crash at the end.

This led to Shares performing poorly as measured over the period, with Fixed Interest (Bonds) doing much better.

The standout performance came from Gold, which for the first time in many years produced a strong return.

- Inflation averaged 2.55% per year.

2000 – 2009 Continued

US Equities

The S+P 500 Index (total return) grew by +1.21% per year

UK Equities

The FTSE All Share Index (total return) grew by + 1.17% per year during the period

Worldwide Equities

Worldwide Equities grew by +1.2% per year

US Bonds

The broad index that measures the performance of Bonds in the US grew by around +6.3% per year during the period

UK Government Bonds

Long dated gilts in the UK rose by +5.1% per year over the decade

Cash

Interest Rates on UK Savings Accounts returned + 4.5% per year

UK Property

UK House Prices rose by just over +8% per year

Gold

The price of Gold rose by just over +14% per year throughout the 2000s

Period 2000-2009

Good For: Equities (especially US), Bonds (especially UK)

Bad For: Cash

The ten-year period saw surprisingly stable rises in the asset areas featured, with only US Equities producing significant above average returns. Cash struggled to match or beat inflation. No asset area exhibited any sign of being ridiculously out of kilter in either direction. Some commentaries which have suggested market conditions were like the 1970s are clearly misguided. Of the five decades featured, arguably, 2010-2019 has been the most settled.

- Inflation averaged 2.71% per year.

US Equities

The S+P 500 Index (total return) grew by + 14.1% per year

UK Equities

The FTSE All Share Index (total return) grew by + 7.6% per year during the period

Worldwide Equities

Worldwide Equities grew by +6.4% per year

US Bonds

The broad index that measures the performance of Bonds in the US grew by around +3.7% per year during the period

UK Government Bonds

Long dated gilts in the UK rose by +7.8% per year over the decade

Cash

Interest Rates on UK Savings Accounts returned + 1.8% per year

UK Property

UK House Prices rose by just a little under +3% per year

Gold

The price of Gold rose by about +3.4% per year throughout the decade

Conclusions

No-one can predict the next five decades, not even the next decade.

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The picture presented by the figures above stresses the volatility of all asset areas.

Some are more volatile than others, it is true, but all have produced incredible variations in return at different times.

These returns have occasionally trended in similar directions, but at others have detached and gone in different directions.

And that is the key.

No-one can predict the next five decades, not even the next decade.

We have presented the figures highlighting very carefully the inflation figure in each decade.

The returns from assets need to be viewed in contrast to the inflation rate.

The only effective way to manage the risk presented by multi-year losses which can occur with any asset or sector is to hold a carefully constructed mix of many different asset classes (or sectors).

This is best done by constructing a portfolio based upon an asset allocation approach, as it is the variation of returns from the assets one holds which is likely to be the biggest determinant of future returns.

Appendix 1:

Progressive Asset Allocation

A progressive asset allocation approach means utilising a mix of assets within an investment portfolio to achieve diversification and changing this mix on a regular basis to cater for changing circumstances and valuations.

This entails regular reviews and rebalancing of the portfolio.

Pursuing an asset allocation approach without the progressive aspect (reviews and rebalancing) can lead to a disproportionate weighting in assets which have performed well in the recent past at the expense of those that have done less well.

This can lead to the portfolio moving too far away from the risk position chosen at outset and which is suitable to match the investor's risk position.

Appendix 2:

Complicating factors within these figures

The figures and data for the assets in each period have been carefully sourced.

However, readers should note some complications in producing any summary report of this sort:

- With Equities the broadest index possible has been shown, the figures include dividends and are what is known as the total return figure. The actual index itself may have produced lower figures as this does not include dividends.
- A focus on the broad index (e.g. S+P 500 in the US) may mask significant swings between different sectors, such as tech stocks, smaller companies and bigger companies.
- With any overseas asset (e.g. US Equities) the return will be denominated in dollars, it should be noted for a UK investor this takes no account of the currency position that would exist in reality, which would affect the Sterling (£) return in the hands of a UK investor.
- In this modern "information world" finding reliable, robust and consistent figures for asset markets is surprisingly difficult. We have cross referenced the findings reported within this guide against various sources (see below) but readers should note not to rely on the specifics in any way for making decisions about their investments or finances.

Appendix 3:

Source Material

US Equities – S+P 500 Index, Total return, which includes both capital appreciation and dividends

UK Equities – FTSE All Share Index, Total return, which includes both capital appreciation and dividends

Worldwide Equities - MSCI EAFE Index, Total Return, which includes capital appreciation and dividends. This represents roughly 85% of world markets excluding US and Canada

US Bonds - Bloomberg Barclays US Aggregate Bond Index (see below)

UK Government Bonds - 20-year UK Gilts, yield + capital value

Cash - Interest Rates on UK Savings Accounts

UK Property - Nationwide House Price Index All Houses (UK)

Gold - Last London Gold Fix of the year

Referenced from and checked against:

https://uk.finance.yahoo.com/

http://www.moneychimp.com/features/market_cagr.htm

https://www.nationwide.co.uk/about/house-price-index/download-data

https://onlygold.com/gold-prices/historical-gold-prices/

https://www.bloomberg.com/markets/rates-bonds/bloomberg-barclays-indices

(Bloomberg Barclays US Aggregate Bond Index known as the Barclays U.S. Aggregate Bond Index until 2016 (and which was known as the Lehman U.S. Aggregate Bond Index prior to Lehman Brothers' collapse). The index measures the performance of investment-grade bonds in the United States.)

https://www.bullionvault.com/gold-guide/annual-asset-performance-comparison

https://www.in2013dollars.com/uk-inflation UK Inflation Calculator - Consumer Price Index

http://www.whichwayhome.com/index.php/gold/hard-assets-investments/real-assets-boom/best-performing-real-assets.html

https://www.sunlife.co.uk/blogs-and-features/the-price-of-a-home-in-britain-then-and-now/

http://www.swanlowpark.co.uk/savings-interest-annual

http://www.finfacts.ie/Private/curency/ftseperformance.htm

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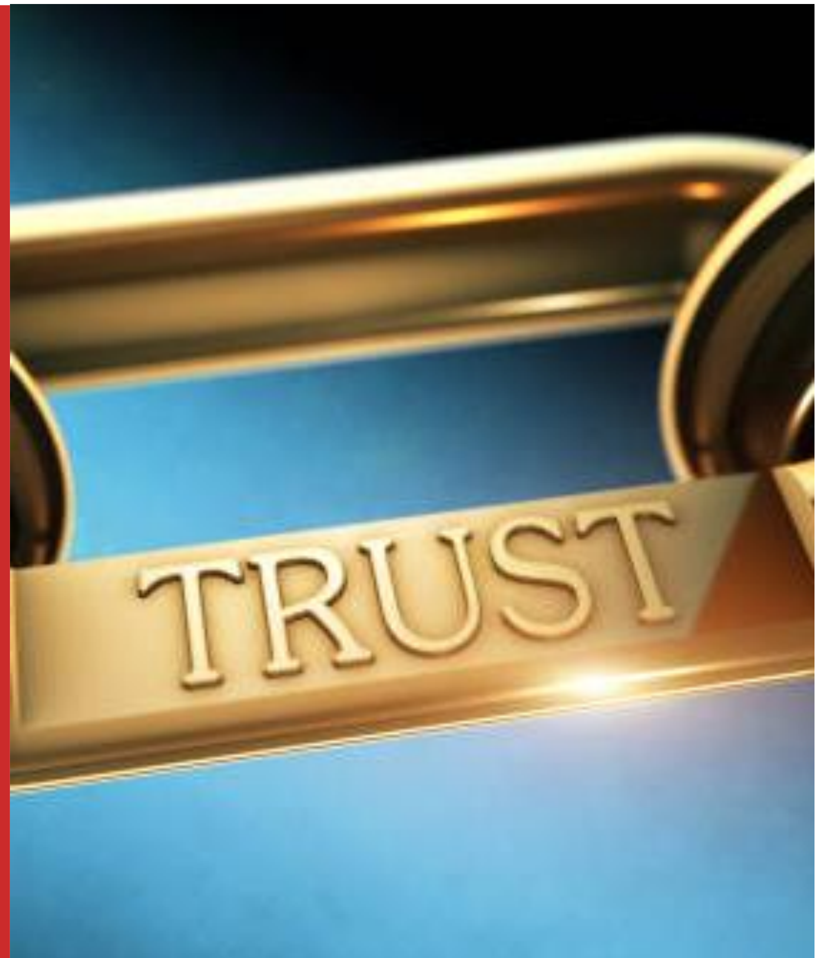

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