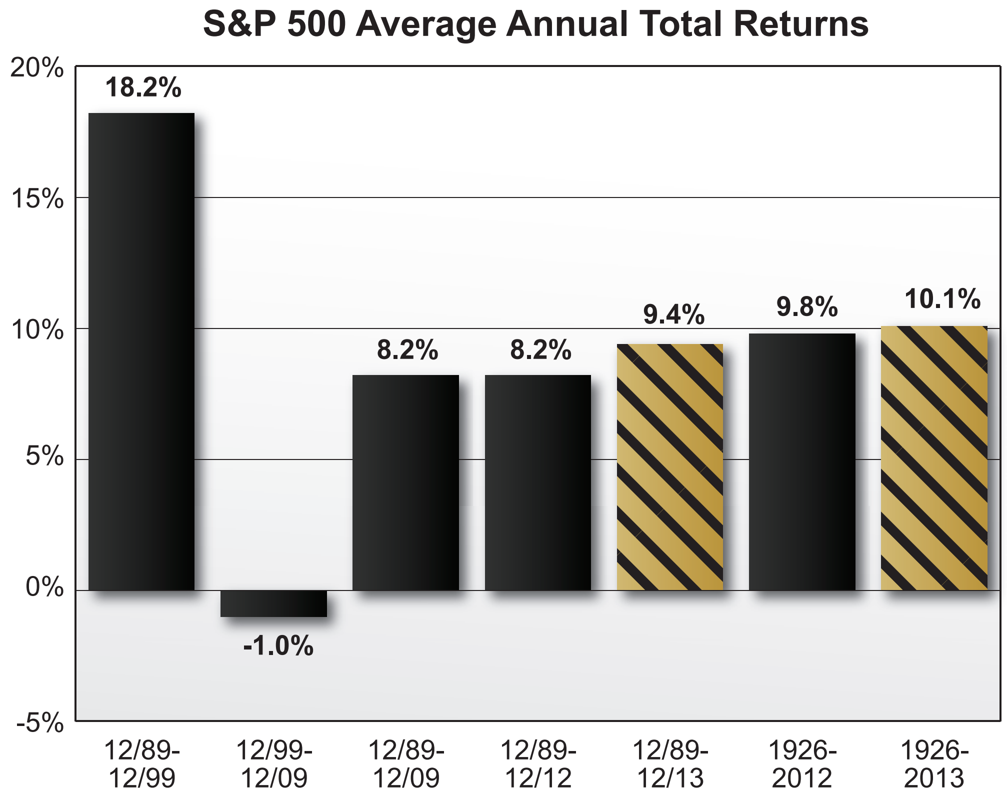
The S&P 500 Still Mending The Fallout From The 1990s Aberration



Source: Bloomberg & Ibbotson Associates/Morningstar

View from the Observation Deck

1. Today's blog post is an update of one we did on 1/29/13. We believe what is depicted in the chart is a great example of how the system of checks and balances in the markets can help mend an aberration over time.
2. To be more specific, we are talking about the inherent profit motive that likely drives all investors. Simply put, if an asset gets cheap enough someone may buy it, and vice versa.
3. The aberration we speak of is the 18.2% average annual total return (Bar #1) the S&P 500 posted in the 1990s. On average, that return was approximately 8 percentage points more per year than the historical norm.
4. Bar #2 reflects the fallout after the Internet bubble burst late in Q1'00. This was referred to as the "Lost Decade" in stocks by the financial media.
5. The black and gold striped bar labeled 12/89-12/13 reflects just how prosperous 2013 was for the equities markets. The 32.4% total return posted by the S&P 500 in 2013 bumped the average annual total return from 8.2% (12/89-12/12) to 9.4%.
6. The black and gold striped bar labeled 1926-2013 shows that large-capitalization stocks (S&P 500) have returned an average of 10.1% per year, including reinvested dividends, since 1926.
7. While past performance is no guarantee of future results, investors may take comfort in the fact that the 9.4% average annual total return since 1989 still lags the 10.1% average since 1926. There is more mending to do, in our opinion.