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How will stocks fare in the next ten years?

From 1926 through the end of 2014, the compound rate of return for large capitalization stocks was 10.1%. That figure includes reinvestment of dividends throughout the period, and it comes from the *Ibbotson SBBI 2015 Classic Yearbook*, published by Morningstar.

Does that mean that if you retire today, you can expect to earn 10.1% for the next ten years if you invest in stocks? Of course not. Here is a sampling of ten-year periods.

Compound annual rates of return for large-cap stocks

1930s	-0.1%
1940s	9.2%
1950s	19.4%
1960s	7.8%
1970s	5.9%
1980s	17.6%
1990s	18.2%
2000s	-0.9%

Source: *Ibbotson SBBI 2015 Classic Yearbook*

For the ten years ending in 2014, stocks achieved a 7.7% return.

There have been 80 overlapping 10-year periods since 1926. Stocks have had a positive return in 76 of those periods. But for four 10-year periods, the total return for the decade was negative—two of those bad decades are noted above.

This creates a conundrum for those about to retire. On the one hand, retirees need to have a significant allocation to equities in order for their purchasing power to keep up with inflation, especially in these days of ultralow interest rates. On the other hand, if someone retires at the beginning of a ten-year drought for stock returns, they are much more likely to outlive their money.

Asset allocation

Looking back at 89 years of financial market history, the *Ibbotson Yearbook* reports that the compound annual return from long-term bonds has been just 5.7%, compared to the 10.1% for stocks. The reward for accepting the lower bond return is less volatility from year to year. Blended portfolios performed as follows:

90% stocks/10% bonds	9.9%
70% stocks/30% bonds	9.2%
50% stocks/50% bonds	8.4%
30% stocks/70% bonds	7.4%
10% stocks/90% bonds	6.3%

These returns assume that the portfolio is rebalanced each year. That is, when stocks outperform bonds, overweighting the portfolio to equities, stocks are sold and new bonds purchased, to maintain the desired blend.

All these figures really prove is that there is no silver bullet in portfolio management. There is no substitute for vigilance, especially during retirement. The old rule of thumb was that one could withdraw 4% of a portfolio's value annually without worrying about running out of money. Volatile prices and low interest rates have changed that calculus. When financial markets fall short of expectations, retirees will need to adjust their spending habits.

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