Why Invest in Stocks?

Stock Market Risk

The stock market continually moves up and down in value, sometimes significantly and rapidly. No one — despite what they claim — can consistently and accurately predict stock market movement.

If you're planning to invest in stocks, it helps to know a bit about the U.S. stock market's historical performance:

- The stock market typically posts a negative return (i.e. loses money) once every 3 or 4 years
- Annual stock returns are volatile: stocks declined 37% in 2008, but gained 32% in 2013
- From October 2007 to March 2009, the stock market lost over half of its value
- Over one and two-year periods, stocks outperform bonds only about 60% of the time
- For 2000-2009, the stock market's compound annual return was negative 1% per year

So Why Invest in Stocks?

Over the long term stocks offer higher returns than bonds, money markets, checking accounts, CDs, and other typical investments. Since 1926, large company stocks (in the U.S.) have achieved an annual compound return of 10%. That compares to 12% for small company stocks, only 5.5% for long-term government bonds, and 3% for inflation. Investors **require** higher return from stocks because of the stock market's significant short-term volatility.

Professor Jeremy Siegel has done a lot of work to investigate the performance of stocks and bonds over the last 200 years. He notes that as the investment period lengthens, the probability that stocks outperform bonds increases. The table below shows the percentage of times that stocks outperformed bonds, for various holding periods. For example, if you remained invested for 20 years, stock returns beat bond returns 96% of the time between 1871-2012. (Even though this study only went through 2012 stocks returned 32% in 2013, 11.4% in 2014, and 1% in 2015. These 3 most current years would have further confirmed stocks beating bonds.)

Holding Period in Years	1	2	3	5	10	20	30
Stocks Beat Bonds	61%	64%	69%	69%	78%	96%	99%

Siegel also calculates the worst performance over the last 200 years, for various holding periods. For example, the worst 20-year compound annual real return for stocks was positive 1.0%, compared to negative 3.1% for bonds.