

Impact of Significant Market Events on Market Returns

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The following information is meant to provide a helpful context for developing future return expectations for five major asset classes. Some of the most inherently difficult years economically for our country, as well as years in which the country experienced severe assaults upon its national "psyche" are presented below. It is worth noting that even after the "crash" of 1929 and the following Great Depression years as presented in the first category *The Roaring '20s and Depression Years*, positive performance results resulted in all five asset classes. Of course, deflation was one of the overriding issues during these years and is illustrated by the negative inflation rate. Other significant periods include the World War II years, the Korean War and the Vietnam War years, the high-inflation Oil Embargo years and early 1980s, the late 1980s and first Gulf War in the early 1990s, and the most recent five and ten year periods that includes the stock market bubble of the late 1990s and the horrific 9/11/01 World Trade Center collapse. From reviewing these series of difficult years and respective average annual returns associated with each, equities are undeniably volatile, and hence the most risky asset class; *but*, possibly more important to note, equities are the only asset class to experience positive inflation-adjusted returns in all the difficult multi-year periods highlighted here. The equity markets are risky, meaning they move around a lot. Yet, while the other asset classes may be less volatile, they are anything but static. The overriding reason an investor needs to own equities at all is the extra return (or compensation) derived from holding a more risky asset. Therefore, a commitment to hold equities is required in order to manage through the many ups and downs of the equity markets. An incorrect conclusion to "time" the market to attain superior returns should be avoided as study after study demonstrates this to be a losing strategy. It is a loser's game if for no other reason than one must be right twice, not once; and every time thereafter, in the end mediocre returns are guaranteed at best. Making the right decision at the right time is a difficult task, even for the most seasoned professional. Further, it is worth noting that not one of the truly greats in investing, such as Warren Buffet, Peter Lynch, and John Templeton, has ever espoused market timing or been a proponent of such a strategy. The overwhelming "best strategy" is balancing risk between the asset classes for one's life situation or investment horizon. By successfully implementing and adhering to a long-term strategy, an investor avoids taking on more risk than the market, but still allows for participation in the equity markets and its consequent higher returns. Again, equities are the only asset class to provide positive inflation-adjusted total returns in all periods of national stress presented here with only one exception, the five-year average annual return for Large Company Stocks ending in 2003.

Asset Class Riskiness*							
<i>Most Risk</i>			<i>Least Risk</i> →				
<i>Small Company Stocks</i>	<i>Large Company Stocks</i>	<i>Long-Term Corporate Bonds</i>	<i>Intermediate Government Bonds</i>	<i>U.S. Treasury Bills</i>	<i>Inflation</i>	<i>Significant Historical Event</i>	
<u>The Roaring '20s and Depression Years</u>							
1926	0.3%	11.6%	7.4%	5.4%	3.3%	-1.5%	
1927	22.1%	37.5%	7.4%	4.5%	3.1%	-2.1%	
1928	39.7%	43.6%	2.8%	0.9%	3.6%	-1.0%	
1929	-51.4%	-8.4%	3.3%	6.0%	4.7%	0.2%	
1930	-38.1%	-24.9%	8.0%	6.7%	2.4%	-6.0%	
1931	-49.8%	-43.3%	-1.9%	-2.3%	1.1%	-9.5%	
1932	-5.4%	-8.2%	10.8%	8.8%	1.0%	-10.3%	
1933	142.9%	54.0%	10.4%	1.8%	0.3%	0.5%	
1934	24.2%	-1.4%	13.8%	9.0%	0.2%	2.0%	
1935	40.2%	47.7%	9.6%	7.0%	0.2%	3.0%	
→	0.3%	5.9%	7.1%	4.7%	2.0%	-2.6%	<i>Avg Annual Compound Total Return (10 Years)</i>
<u>The World War II Years</u>							
1936	64.8%	33.9%	6.7%	3.1%	0.2%	1.2%	
1937	-58.0%	-35.0%	2.7%	1.6%	0.3%	3.1%	
1938	32.8%	31.1%	6.1%	6.2%	0.0%	-2.8%	
1939	0.3%	-0.4%	4.0%	4.5%	0.0%	-0.5%	
1940	-5.2%	-9.8%	3.4%	3.0%	0.0%	1.0%	
1941	-9.0%	-11.6%	2.7%	0.5%	0.1%	9.7%	
1942	44.5%	20.3%	2.6%	1.9%	0.3%	9.3%	
1943	88.4%	25.9%	2.8%	2.8%	0.3%	3.2%	
1944	53.7%	19.8%	4.7%	1.8%	0.3%	2.1%	
1945	73.6%	36.4%	4.1%	2.2%	0.3%	2.3%	
1946	-11.6%	-8.1%	1.7%	1.0%	0.4%	18.2%	
→	16.0%	6.8%	3.8%	2.6%	0.2%	4.1%	<i>Avg Annual Compound Total Return (11 Years)</i>

Asset Category Riskiness

← Most Risk		Least Risk →			
<i>Small Company Stocks*</i>	<i>Large Company Stocks**</i>	<i>Long-Term Corporate Bonds</i>	<i>Intermediate Government Bonds</i>	<i>U.S. Treasury Bills</i>	<i>Inflation</i>

Significant Historical Event

The Korean War Years (1950 to 1953)

1950	38.7%	31.7%	2.1%	0.7%	1.2%	5.8%
1951	7.8%	24.0%	-2.7%	0.4%	1.5%	5.9%
1952	3.0%	18.4%	3.5%	1.6%	1.7%	0.9%
1953	-6.5%	-1.0%	3.4%	3.2%	1.8%	0.6%
→	9.6%	17.6%	1.6%	1.5%	1.5%	3.3%

Avg Annual Compound Total Return (4 Years)

The Vietnam War Years (1958 to 1975)

1958	64.9%	43.4%	-2.2%	-1.3%	1.5%	1.8%
1959	16.4%	12.0%	-1.0%	-0.4%	3.0%	1.5%
1960	-3.3%	0.5%	9.1%	11.8%	2.7%	1.5%
1961	32.1%	26.9%	4.8%	1.8%	2.1%	0.7%
1962	-11.9%	-8.7%	7.9%	5.6%	2.7%	1.2%
1963	23.6%	22.8%	2.2%	1.6%	3.1%	1.6%
1964	23.5%	16.5%	4.8%	4.0%	3.5%	1.2%
1965	41.8%	12.5%	-0.5%	1.0%	3.9%	1.9%
1966	-7.0%	-10.1%	0.2%	4.7%	4.8%	3.4%
1967	83.6%	24.0%	-5.0%	1.0%	4.2%	3.0%
1968	36.0%	11.1%	2.6%	4.5%	5.2%	4.7%
1969	-25.1%	-8.5%	-8.1%	-0.7%	6.6%	6.1%
1970	-17.4%	4.0%	18.4%	16.9%	6.5%	5.5%
1971	16.5%	14.3%	11.0%	8.7%	4.4%	3.4%
1972	4.4%	19.0%	7.3%	5.2%	3.8%	3.4%
1973	-30.9%	-14.7%	1.1%	4.6%	6.9%	8.8%
→	11.4%	9.2%	3.1%	4.2%	4.1%	3.1%

Arab-Israeli War/U.S. Oil Embargo
Avg Annual Compound Total Return (16 Years)

The Oil Embargo Years and High-Inflation Early 1980s

1974	-19.9%	-26.5%	-3.1%	5.7%	8.0%	12.2%
1975	52.8%	37.2%	14.6%	7.8%	5.8%	7.0%
1976	57.4%	23.8%	18.6%	12.9%	5.1%	4.8%
1977	25.4%	-7.2%	1.7%	1.4%	5.1%	6.8%
1978	23.5%	6.6%	-0.1%	3.5%	7.2%	9.0%
1979	43.5%	18.4%	-4.2%	4.1%	10.4%	13.3%
1980	39.9%	32.4%	-2.8%	3.9%	11.2%	12.4%
1981	13.9%	-4.9%	-1.2%	9.5%	14.7%	8.9%
1982	28.0%	21.4%	42.6%	29.1%	10.5%	3.9%
1983	39.7%	22.5%	6.3%	7.4%	8.8%	3.8%
→	28.4%	10.6%	6.4%	8.3%	8.6%	8.2%

Avg Annual Compound Total Return (10 Years)

The Late '80s and Gulf War Era

1986	6.9%	18.5%	19.8%	15.1%	6.2%	1.1%
1987	-9.3%	5.2%	-0.3%	2.9%	5.5%	4.4%
1988	22.9%	16.8%	10.7%	6.1%	6.3%	4.4%
1989	10.2%	31.5%	16.2%	13.3%	8.4%	4.6%
1990	-21.6%	-3.2%	6.8%	9.7%	7.8%	6.1%
1991	44.6%	30.5%	19.9%	15.5%	5.6%	3.1%
1992	23.3%	7.7%	9.4%	7.2%	3.5%	2.9%
1993	21.0%	10.0%	13.2%	11.2%	2.9%	2.7%
1994	3.1%	1.3%	-5.8%	-5.1%	3.9%	2.7%
1995	34.5%	37.4%	27.2%	16.8%	5.6%	2.5%
1996	17.6%	23.1%	1.4%	2.1%	5.2%	3.3%
1997	22.8%	33.4%	12.9%	8.4%	5.3%	1.7%
1998	-7.3%	28.6%	10.8%	10.2%	4.9%	1.6%
→	11.5%	17.8%	10.6%	8.6%	5.4%	3.2%

Space Shuttle Challenger Explodes
1987 Market Crash of 20% in One Day
Iraq invades Kuwait August of 1990
Persian Gulf War began and ended early 1991
Avg Annual Compound Total Return (13 Years)

Recent History

1999	29.8%	21.0%	-7.4%	-1.8%	4.7%	2.7%
2000	-3.6%	-9.1%	12.9%	12.6%	5.9%	3.4%
2001	22.8%	-11.9%	10.6%	7.6%	3.8%	1.6%
2002	-13.3%	-22.1%	16.3%	12.9%	1.6%	2.4%
2003	60.7%	28.7%	5.3%	2.4%	1.0%	1.9%
2004	18.4%	10.9%	8.7%	2.3%	1.2%	3.3%
→	14.3%	-2.3%	10.7%	7.5%	2.7%	2.5%
→	16.4%	12.1%	9.5%	7.2%	3.9%	2.4%

World Trade Center Attack Sept. 11, 2001
Avg Annual Compound Total Return (5 Years)
Avg Annual Compound Total Return (10 Years)

* *Small Company*: Fifth Capitalization quintile of stocks on the NYSE for 1926 - 1981. Performance of Dimensional Fund Advisors Small Company Performance of the DFA Micro Cap Fund April 2001 to Present. *Large Company*: S&P 500 1957 to Present and S&P 90 1926 to 1957. *Longterm Corporate*: 20 Year Maturity. *Intermediate Gov't*: 5 Year Maturity. *U.S. Treasury Bill*: 30 Day Maturity. Source: Ibbotson Associates, Chicago. "Stocks, Bonds, Bills, and Inflation", 2004 Yearbook

1999-2004 16.8% 1.3% 7.4% 5.9% 3.0% 2.5%