



## The Market is Hitting New Highs: Your Expected Returns Just Went Down!

Investment Newsletter

2007 Volume III

With the Dow Jones Industrial Average flirting with 14,000 and the S&P 500 Index near an all-time high, it is easy to look at one's investment statements and feel good. It is also tempting to believe that the strong run in stock market returns since the beginning of 2003 will continue. Alas, we all know that this is not possible. The question before us is this: what should we expect from stock market returns going forward? First, we need to take a look back to answer this question.

Assume for a moment it is the beginning of 2003 and the market has just endured three straight years of losses following the bubble of the late 1990s. Many sober financial folks that I know were using 8% as their expected returns for the next 10 years going forward. The expectation of 8% returns from 2003-2013 included the expectation that some years the market would return more than 8% and some years the market would return less than 8%. Let's take a look at how things have progressed since the beginning of 2003.

Using the Vanguard Total Stock Market Index as a proxy for the entire US Stock Market, annual returns for 2003-2006 were: 31.64%, 12.62%, 6.08%, and 15.72% respectively. Year-to-date returns for 2007 are 10.49% as of July 18. You will notice that only one year was below 8%.

Here is another way to think about it: let's say you invested \$1,000 in the Total US Stock Market Fund at the beginning of 2003 and it returned exactly 8% per year for 10 years. After 10 years you would have \$2,159. Now, let's look at how that \$1,000 has done in reality. After four years of very good returns your money would be worth \$1,820 – not too far from what one would expect after ten years of returns based on original expectations!

For that same \$1,820 to grow to \$2,159 at the end of this sample ten-year period, investment returns will have to equal 2.89%. Yes, that is right, less than 3%!

Now, I am not predicting or suggesting in any way that the market will only deliver 3% returns over the next six years. The message to take away from this article is that as the market goes higher, a prudent investor should expect more modest returns from his/her equity investments going forward. Of course, when the inevitable market corrections come our way, one can take solace as their expected returns will increase!

**For additional information** on how to calculate expected investment returns, please call Ken Weingarten at (609) 620-1770.

**DISCLAIMER:** Weingarten Associates sends this newsletter as a public service. Information has been obtained from sources believed to be reliable, but its accuracy and completeness, and the opinions based thereon, are not guaranteed and no responsibility is assumed for errors and omissions. Nothing in this publication should be deemed as individual investment advice. Consult your personal financial advisor and investment prospectus before making an investment decision. Any performance data published herein are not predictive of future performance. Investors should always be aware that past performance has not been shown to predict the future. If in doubt about the tax or legal consequences of a legal decision, it is best to consult a qualified expert.