

INVESTMENT

# ASSET AREA PERFORMANCE

DECADE BY DECADE 1970 – 2020



**Interface** 

Independent Financial Advisers - Financial Life Planners

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## DECADE BY DECADE 1970 – 2020

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## **Introduction**

### **January 2020**

The beginning of a new decade is a perfect point to look back and review past decades, as the ten-year point represents a fair period to make judgements, to see clearly the fluctuating nature of different investments and their performance records.

In this case we will focus on asset classes, such as UK and US Shares, Property, Cash and the returns these have produced.

### **What is the purpose and objective of this guide?**

Research and several studies from behavioural finance show that investors are swayed more by recent memory and experience, than longer-term ones. Investing requires a long-term view.

Therefore, looking back over the past fifty years and taking a decade by decade view of the returns from various assets is intended to highlight just how much 'swing' there is in asset class – or sector – performance.

This, in turn, should emphasise how important it is to take an asset allocation approach when considering an investment portfolio and where the monies – within the portfolio – should be invested.



## Asset classes

Strictly the reference to 'asset classes' should – or could – be referred to as sectors. In relation to the objective and point of this guide, the two titles are inter-changeable.

An asset class or sector describes an investment type or area, such as Shares, Property or Fixed Interest which have distinct and different characteristics. Including their risk levels and likely performance outcomes.

A sector is a more refined description, for example UK Shares and US Shares are different sectors, both represent an investment into Shares, but in companies in different geographical locations. They are therefore distinct sectors.

## Terminology

Some of the terms used may seem confusing. For simplicity the reference to Equities is the same as Shares. In respect of Fixed Interest, we show in the figures 'Bonds' either Government Bonds (in the UK) or Government and Corporate Bonds in the US. We focus on Gold, rather than Commodities, as data about Gold stretches back for the duration and because it acts as a decent proxy for this part of the investment framework.

## The asset classes (sectors) we cover:

- US Equities
- UK Equities
- Worldwide Equities
- US Bonds
- UK Government Bonds
- Cash
- UK Property
- Gold

The asset classes covered in this guide should be the major constituents of most investor's portfolios.

We will not cover every asset class, nor will we comment specifically on the historic performance or returns. We do, however, provide an overview commentary for each decade.

The aim is to show a clear picture of how the returns from various asset classes fluctuate and how this relates to the power of diversifying. Not just to ensure risk management is at the fore, but also to capture optimal performance which means maximising the rewards from a given risk level.

The way to achieve this – or to strive for this, at least – is to diversify.

RESEARCH SHOWS THAT  
INVESTORS ARE SWAYED  
BY RECENT MEMORY &  
EXPERIENCE...  
INVESTING REQUIRES A  
LONGER-TERM VIEW

**Good portfolio management = using an asset allocation approach = strongly diversifying one's holdings.**

There is one final aspect involved with this, and again this is accentuated by the findings within this guide, which is that an asset allocation approach should be progressive.

This means that the asset allocation, the percentage spilt between the different asset classes should be regularly reviewed and rebalanced. What may work in 2020, in terms of the way the portfolio is spread, may not work in 2024.

For various reasons, as the returns from a portfolio come through, via the underlying holdings, which could include losses in some parts, investors should adjust.

For a more detailed explanation of a progressive asset allocation approach see appendix one at the end of this guide.

**Note:**

*All figures within this guide are produced to illustrate the variation in asset/sector returns and are sourced at the end of the guide (appendix three). Whilst ensuring accuracy of the figures has been at the forefront of the research, any data should not be relied upon to make decisions about your finances or investments.*

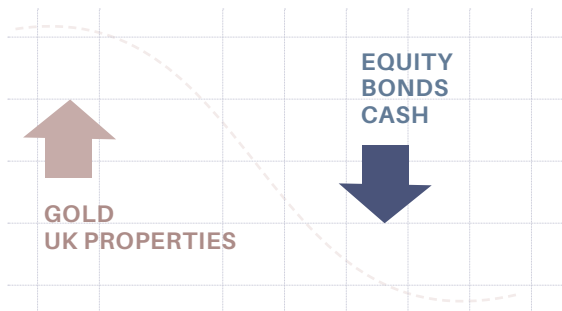
*Plus, the data is difficult to portray accurately in all cases due to complicating factors, see appendix two.*

*The 1970s do not include specific numbers as the data for this decade is less easily obtainable and, where available, not consistent with data sets thereafter.*

AN ASSET ALLOCATION  
APPROACH SHOULD BE  
PROGRESSIVE... WHAT  
WORKS IN 2020, IN  
TERMS OF HOW A  
PORTFOLIO IS SPREAD,  
MAY NOT WORK IN 2024

## THE FIVE DECADES

### Period 1970 - 1979



#### Commentary

This was possibly the most harrowing decade for investors in recent memory.

**The dominating factor was inflation which averaged an eye watering 13.7% per year.**

Notionally Equities and Bonds rose in value throughout the period (example: US Equities by around 5.8% per year total return; US Government Bonds roughly the same) however taking inflation into account, the real return was negative. Investors lost money in these mainstream areas.

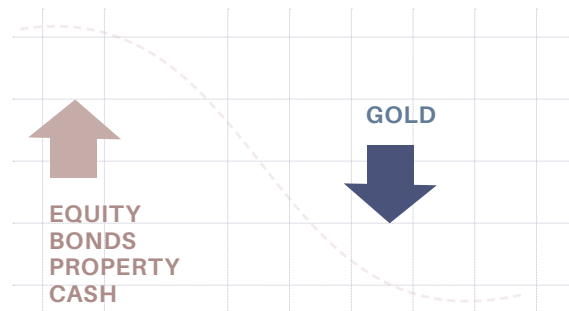
UK Savings Accounts paid between 5% and 8% per year averaging around 6.5% per year.

Commodities boomed, with returns easily outstripping inflation.

Gold and Oil both saw very significant price rises.

UK House Prices quadrupled during the decade.

### Period 1980 - 1989



#### Commentary

The 1980s was quite an exceptional decade with just about every asset, except for Gold, on a super-charged relentless rise.

However, this was offset to some extent by high inflation and although Equities (Shares) produced impressive returns, they did so against very high interest rates (as shown below by Cash).

**Inflation averaged 6.24% per year**

#### US Equities

The S+P 500 Index grew by close to +18.3% per year using a total return measurement (including dividends) throughout the 1980s

#### UK Equities

The FTSE All Share Index (total return) grew by +23.6% per year during the period

#### Worldwide Equities

Worldwide equities grew by +22% per year

#### US Bonds

The broad index that measures the performance of Bonds in the US grew by just over +12% per year during the 1980s

#### UK Government Bonds

Long dated gilts in the UK rose by an average of a tad under +14% per year over the decade

#### Cash

Interest Rates on UK Savings Accounts returned + 8.9% per year

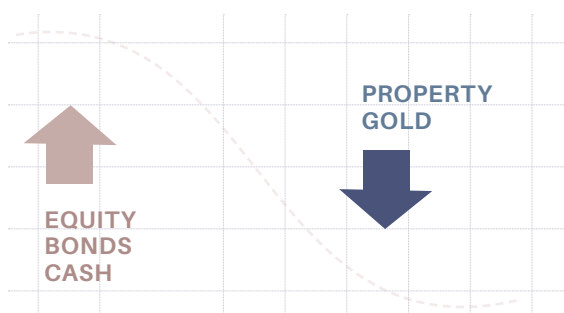
#### UK Property

UK House Prices rose by just a little under +11% per year

#### Gold

The price of Gold fell by about -1.4% per year

## Period 1990 - 1999



### Commentary

The 1990s carried on the themes of the 1980s, with popular asset classes, Equities and Bonds producing decent returns. The notable difference was Property, which struggled to keep pace with inflation for most of the decade – indeed Property values fell consistently during the early 1990s. Inflation was also lower in the 1990s than the 1980s.

It is worth noting in the Equity sector, the big difference between the US/UK Equities and Worldwide Equities, reflecting the struggles of the Japanese market during this period.

### Inflation averaged 3.06% per year

#### US Equities

The S+P 500 Index (total return) grew by close to +19.1% per year

#### UK Equities

The FTSE All Share Index (total return) grew by +14.9% per year during the period

#### Worldwide Equities

Worldwide Equities grew by +7% per year

#### US Bonds

The broad index that measures the performance of Bonds in the US grew by around +7.7% per year

#### UK Government Bonds

Long dated gilts in the UK rose by +13.3% per year over the decade

#### Cash

Interest Rates on UK Savings Accounts returned +7% per year

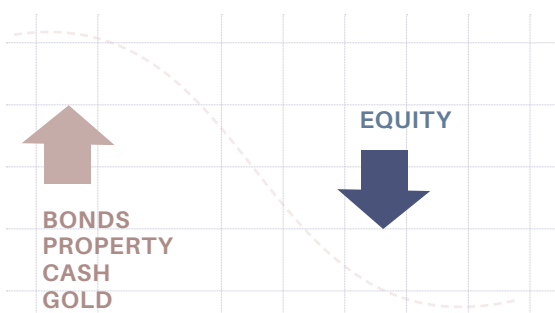
#### UK Property

UK House Prices rose by just a little under +2% per year

#### Gold

The price of Gold fell by about -3.1% per year throughout the 1990s

## Period 2000 - 2009



### Commentary

The decade was dominated by two major financial catastrophes, the so-called tech crash at the beginning of the decade and the financial crash at the end.

This led to Shares performing poorly as measured over the period, with Fixed Interest (Bonds) doing much better.

The standout performance came from Gold, which for the first time in many years produced a strong return.

### Inflation averaged 2.55% per year.

#### US Equities

The S+P 500 Index (total return) grew by +1.21% per year

#### UK Equities

The FTSE All Share Index (total return) grew by +1.17% per year during the period

#### Worldwide Equities

Worldwide Equities grew by +1.2% per year

#### US Bonds

The broad index that measures the performance of Bonds in the US grew by around +6.3% per year during the period

#### UK Government Bonds

Long dated gilts in the UK rose by +5.1% per year over the decade

#### Cash

Interest Rates on UK Savings Accounts returned +4.5% per year

#### UK Property

UK House Prices rose by just over +8% per year

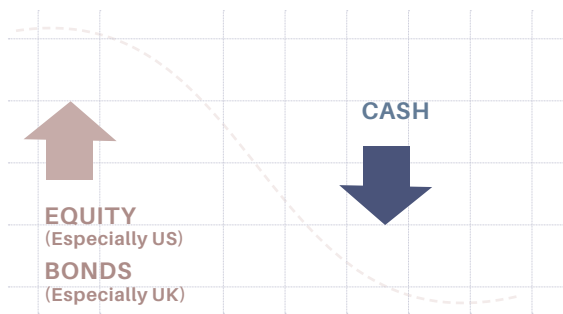
#### Gold

The price of Gold rose by just over +14% per year throughout the 2000s





## Period 2010 - 2019



### Commentary

The ten-year period saw surprisingly stable rises in the asset areas featured, with only US Equities producing significant above average returns. Cash struggled to match or beat inflation.

No asset area exhibited any sign of being ridiculously out of kilter in either direction. Some commentaries which have suggested market conditions were like the 1970s are clearly misguided.

Of the five decades featured, arguably, 2010 - 2019 has been the most settled.

**Inflation averaged 2.71% per year.**

### US Equities

The S+P 500 Index (total return) grew by +14.1% per year

### UK Equities

The FTSE All Share Index (total return) grew by +7.6% per year during the period

### Worldwide Equities

Worldwide Equities grew by +6.4% per year

### US Bonds

The broad index that measures the performance of Bonds in the US grew by around +3.7% per year during the period

### UK Government Bonds

Long dated gilts in the UK rose by +7.8% per year over the decade

### Cash

Interest Rates on UK Savings Accounts returned +1.8% per year

### UK Property

UK House Prices rose by just a little under +3% per year

### Gold

The price of Gold rose by about +3.4% per year throughout the decade

## Conclusions

The picture presented by the figures above stresses the volatility of all asset areas.

Some are more volatile than others, it is true, but all have produced incredible variations in return at different times.

These returns have occasionally trended in similar directions, but at others have detached and gone in different directions.

And that is the key. No-one can predict the next five decades, not even the next decade.

We have presented the figures highlighting very carefully the inflation figure in each decade.

The returns from assets need to be viewed in contrast to the inflation rate.

The only effective way to manage the risk presented by multi-year losses which can occur with any asset or sector is to hold a carefully constructed mix of many different asset classes (or sectors).

This is best done by constructing a portfolio based upon an asset allocation approach, as it is the variation of returns from the assets one holds which is likely to be the biggest determinant of future returns.

THE ONLY EFFECTIVE WAY TO  
MANAGE THE RISK PRESENTED  
BY MULTI-YEAR LOSSES,  
IS TO HOLD A CAREFULLY  
CONSTRUCTED MIX OF MANY  
DIFFERENT ASSET CLASSES

## Appendix One: Progressive Asset Allocation

A progressive asset allocation approach means utilising a mix of assets within an investment portfolio to achieve diversification and changing this mix on a regular basis to cater for changing circumstances and valuations. This entails regular reviews and rebalancing of the portfolio.

Pursuing an asset allocation approach without the progressive aspect (reviews and rebalancing) can lead to a disproportionate weighting in assets which have performed well in the recent past at the expense of those that have done less well.

This can lead to the portfolio moving too far away from the risk position chosen at outset and which is suitable to match the investor's risk position.

## Appendix Two: Complicating factors within these figures

The figures and data for the assets in each period have been carefully sourced.

However, readers should note some complications in producing any summary report of this sort:

- a) With Equities the broadest index possible has been shown, the figures include dividends and are what is known as the total return figure. The actual index itself may have produced lower figures as this does not include dividends.
- b) A focus on the broad index (e.g. S+P 500 in the US) may mask significant swings between different sectors, such as tech stocks, smaller companies and bigger companies.
- c) With any overseas asset (e.g. US Equities) the return will be denominated in dollars, it should be noted for a UK investor this takes no account of the currency position that would exist in reality, which would affect the Sterling (£) return in the hands of a UK investor.
- d) In this modern "information world" finding reliable, robust and consistent figures for asset markets is surprisingly difficult. We have cross referenced the findings reported within this guide against various sources (see below) but readers should note not to rely on the specifics in any way for making decisions about their investments or finances.

## Appendix Three: Source Material

### US Equities

**S+P 500 Index, Total return**, which includes both capital appreciation and dividends

### UK Equities

**FTSE All Share Index, Total return**, which includes both capital appreciation and dividends

### Worldwide Equities

**MSCI EAFE Index, Total Return**, which includes capital appreciation and dividends. This represents roughly 85% of world markets excluding US and Canada

### US Bonds

**Bloomberg Barclays US Aggregate Bond Index\***

### UK Government Bonds

**20-year UK Gilts, yield + capital value**

### Cash

**Interest Rates on UK Savings Accounts**

### UK Property

**Nationwide House Price Index All Houses (UK)**

### Gold

**Last London Gold Fix** of the year

\*Bloomberg Barclays US Aggregate Bond Index known as the Barclays U.S. Aggregate Bond Index until 2016 (and which was known as the Lehman U.S. Aggregate Bond Index prior to Lehman Brothers' collapse). The index measures the performance of investment-grade bonds in the United States.)



**Referenced from and checked against:**

<https://uk.finance.yahoo.com/>

[http://www.moneychimp.com/features/market\\_cagr.htm](http://www.moneychimp.com/features/market_cagr.htm)

<https://www.nationwide.co.uk/about/house-price-index/download-data>

<https://onlygold.com/gold-prices/historical-gold-prices>

<https://www.bloomberg.com/markets/rates-bonds/bloomberg-barclays-indices>

<https://www.bullionvault.com/gold-guide/annual-asset-performance-comparison>

<https://www.in2013dollars.com/UK-inflation>  
UK Inflation Calculator - Consumer Price Index

<http://www.whichwayhome.com/index.php/gold/hard-assets-investments/real-assets-boom/best-performing-real-assets.html>

<https://www.sunlife.co.uk/blogs-and-features/the-price-of-a-home-in-britain-then-and-now/>

<http://www.swanlowpark.co.uk/savings-interest-annual>

<http://www.finfacts.ie/Private/currency/ftseperformance.htm>

## History, structure, and expertise

Interface Financial Planning started providing independent financial advice in 1992. From the beginning it had the aim of providing professional advice and quality service to people with modest income and wealth.

Its key value was putting people before profit, and contribution before reward. This mission statement has been our torch to light the path ahead and has been the reason that we have endured for over 24 years.

Alan has lead the company with his personal values of: Integrity, Compassion, Respect, & Loyalty, and he is proud that over the years he has worked with clients who share similar values. Like him they want to help others and make the world a little better.

Client care and service is important and he is proud that his first two clients from January 1990 remain his clients today.

We believe that every client should have access to highly qualified advice and expertise.

Technology is used to the full to maximise efficiency and engage expertise from throughout the UK. The business has been paperless for 10 years and for over 5 years has been 'cloud' based. This structure reduces costs and allows support staff to operate anywhere - from Colchester to Honiton to Leicester and elsewhere.

Clients are encouraged to access their online account where they can exchange messages and documents securely. They can view their investments and reports, and they have immediate access to their paper file. Clients love the transparency and openness of being able to view and print paperwork going back for years and many clients use it as a source of reference.



**ALAN MORAN**  
**Owner, Director**  
**Interface Financial Planning**

Alan Moran is one of the most highly qualified advisers in the UK. He became a Certified Financial Planner in 1995 and he was one of the first Chartered Financial Planners in 2005.

He is a Chartered FCSI, a holder of the IMC certificate and member of CFA UK. His expertise has been called upon by The CII, The IFP, The Kinder Institute, and others, where he has trained and examined other financial advisers.

**Alan Moran B.Sc. M.Soc.Sc. Cert.Ed. FPFS FSWW IMC CFP<sup>CM</sup> RLP<sup>®</sup>**

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