

[Jeffrey Frye](#) - Wed, 3/13/2024 - 09:47

A year ago, we published an article under the tongue-in-cheek title of “[That’s Alright, It Was Only Money](#).” We wanted to update our understanding of historical performance results for traditional investment portfolios after the disastrous conclusion of the year 2022. We used the S&P 500 Index as the benchmark for stocks and Barclay’s Aggregate Bond Index as the benchmark for fixed income. In 2022, the former ended the year with a return of minus 13.01%, and the latter ended the year with a return of minus 19.44%. That meant our prototypical investment portfolio, invested 50% in stocks and 50% in bonds, saw a blended investment return of **minus 16.23%**. At the time, we pointed out that the aggregate performance for 2022 was *actually worse* than the aggregate performance for the Great Recession year 2008, which was “**only**” **minus 15.88%**.

And now, after another year in the books, but with quite different results in 2023, we ask the question, “Are we back to normal?” It’s probably a rhetorical question, and it begs a more specific question: “What is normal, anyway?” The S&P 500 return in 2023 was 24.23%, and the Barclays Aggregate Bond Index return was 5.53%, resulting in a blended return of 14.88%. It was a great year for investment portfolios holding traditional asset classes! The improved numbers should make everyone feel a little better off. Does it give us greater confidence to make the argument that over many years, a prudent investor strategy results in positive returns? Let’s take a look at the actual numbers.

Yearly Investment Performance 1999-2023

Year	Bloomberg Barclays Aggregate	S&P 500	Portfolio Consisting of 50% Each
1999	-0.82%	21.04%	10.11%
2000	11.63%	-9.11%	1.26%
2001	8.43%	-11.89%	-1.73%

2002	10.26%	-22.10%	-5.92%
2003	4.10%	28.68%	16.39%
2004	4.34%	10.88%	7.61%
2005	2.43%	4.91%	3.67%
2006	4.33%	15.79%	10.06%
2007	6.97%	5.49%	6.23%
2008	5.24%	-37.00%	-15.88%
2009	5.93%	26.46%	16.20%
2010	6.54%	15.06%	10.80%
2011	7.84%	2.11%	4.98%
2012	4.22%	16.00%	10.11%
2013	-2.02%	32.39%	15.19%
2014	5.97%	13.46%	9.72%
2015	0.55%	1.25%	0.90%
2016	2.65%	12.00%	7.33%
2017	3.54%	21.70%	12.62%
2018	0.01%	-6.24%	-3.12%
2019	8.72%	28.88%	18.80%
2020	7.51%	16.26%	11.89%

2021	-1.54%	26.89%	12.68%
2022	-13.01%	-19.44%	-16.23%
2023	5.53%	24.23%	14.88%

This chart shows that the annual returns for stocks and bonds swing dramatically, especially in the case of stocks. The absolute worst investment performance for the S&P 500 was 2008, which saw a return of negative 37%! But the pendulum swings both ways, and in 2013, we had the highest return for stocks over the past 25 years – in that year, the S&P 500 posted a return of 32.39%. On the bond side, the worst year over the past twenty-five was 2022, with a return of negative 13.01%, and yet, the best year was 2000, with a total return of 11.63%.

We should make a couple of notes about these numbers. The stock returns quoted are based on only the changing values of the holdings in the index; the returns are “excluding dividends,” as they say. This means that the performance numbers are decidedly understated; if we quoted stock returns that included dividends, the annual returns would be approximately 2% higher, based on the typical income yield of traditional equity investments. We did this deliberately, because we wanted to present a *worse-case scenario*.

Perhaps more importantly, we have essentially “dumbed down” our theoretical investment portfolio. We are only showing the two traditional asset classes – large cap U.S. stocks and the oft-quoted Barclays Aggregate U.S. Bond Index. Some might refer to these indices as “very-middle-of-the-road.” In real-world portfolios, the allocation between stocks and bonds would probably be different, and the actual investment choices would be far more varied beyond our two indices. Further, it’s likely there would be more asset classes. Even the most conservative investment approaches by those serving in a fiduciary capacity would probably include a smattering of alternative asset classes, such as international equities, REITs (real estate-based funds), and commodities (likely precious metals, if anything).

We use an overly-simplified theoretical portfolio to make the point that even with a less-than-optimal investment strategy, there are significant positive returns over the long run with a thoughtfully-managed investment portfolio using sensible

proportions of mainstream investments. With a bare minimum point-and-click approach, and a portfolio divided evenly between the two most popular indices for stocks and bonds, we have significant positive results over the course of many years. Even after a particularly bad year like 2022, we saw the numbers holding up over the long run, and after a decidedly positive year, things look even better.

Taking the long view

We have seen the performance numbers broken out *year-by-year* over the course of the past 25, years, but now, let's take a look at the long-term average results.

Average Investment Performance

Year	Bloomberg Barclays Aggregate	S&P 500	Portfolio Consisting of 50% Each
Average for 25 years 1999 to 2023	3.97%	8.71%	6.34%
Average for 20 years 2004 to 2023	3.29%	10.55%	6.92%
Average for 15 years 2009 to 2023	2.83%	14.07%	8.45%
Average for 10 years 2014 to 2023	1.99%	11.90%	6.95%
Average for 5 years 2019 to 2023	1.44%	15.36%	8.40%

In this chart, we show that over 25 years from 1999 to 2023, the average stock return was approaching 9%, and the average bond return was approaching 4%. When combining the two pieces for aggregate performance, we come out well above 6%. Using what could be described as a “paint-by-numbers” approach to investing without any strategic thought, we still have a long-term average investment return of 6.34%. And remember, this is quoting the stock returns without dividends.

Looking at the average returns for the past 20 years, from 2004 to 2023, our long-term average performance is 6.92%, and for the past 15 years, the average blended return is 8.45%. We don’t want to get too fixated on specific ranges of years, though, because we’re trying to support the premise that long-term results are more important than short-term results. When we talk about charitable remainder trusts, we are probably looking at an average time span of 15-20 years. If the most typical payout rate is 5%, and we assume a management fee of 1% (probably higher than in many cases), we need a net return of at least 6% to keep the corpus at or above the funding amount. Plus, it’s nice to have a little extra return to reinvest, so the corpus keeps up with inflation, at minimum.

What about endowment funds? And private foundations?

There again, we need to look at the long-run averages for tried-and-true investment strategies. Looking at these numbers, any asset manager should be able to get long-term average returns of 6% or higher. Private foundations and endowments need to be able to distribute roughly 5% each year on average, but a better-than-average investment agent ought to be able to deliver a long-term return of well above 5%.

And what about gift annuity investment pools?

All the talk about charitable gift annuities not being as viable as they used to be is perhaps a little misguided. If a good asset manager can deliver 6% or more in long-term performance, a gift annuity pool is not going to go belly-up. Sure, the corpus declines on most gift annuities, but with an investment return of 6% or more, the portfolios should be able to bear up under a net withdrawal rate of 7 or 8%. If charities are writing gift annuities for the recommended rates, and the portfolios are being invested in a prudent manner, the gift annuity programs should never run in the red. (Nonetheless, timing matters, and it can be difficult to recover from early losses with gift annuities.) If the asset managers cannot deliver performance that is decidedly above 5%, perhaps it is time for a new asset manager. After all, ordinary

investors can get 5% with their eyes closed.

What does this mean for investors and donors?

Here is one last comment that is important for those of us involved with planned giving. The point of our annual exercise is to look at the long-term blended performance results of a theoretical portfolio invested in traditional asset classes. We have seen how the numbers can vary from year to year, and we've looked at the long-term averages of the prototypical, overly simplified, and overly cautious, investment portfolio. If the swings back and forth don't matter from a fiduciary perspective, wouldn't the net effect be the same for the individual investor?

Wouldn't the potential planned giving donor be able to see the positive investment returns over the long run and feel better able to make significant charitable contributions? When a potential donor sees his or her investment accounts increasing in value over the long run and his or her retirement accounts going up over time, wouldn't that individual feel more comfortable about sharing their wealth with their favorite charitable organizations? The rising tide lifts all boats, as they say.

So, are we back to normal?

Getting back to our original questions, who is to say if we are back to "normal," or even to say what "normal" is? Those are rhetorical questions, but the reality is that we continue to make the case for the long-term prudent investor concept. Nothing in life is guaranteed, to be sure, but an investment strategy consisting of sensible asset choices held over the course of many years seems to be a pretty good recipe for maintaining and increasing financial wealth over the course of many years. Whether the wealth is still in the hands of the individual investor (and potential donor), or if it's already in some sort of charitable configuration, the prudent investor approach succeeds in the long run.

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