Macro Roundup Artcile

Headline: Stocks For The Long Run? Sometimes Yes, Sometimes No

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Tweet: An analysis of US equity and bond returns since 1792 refutes the “stocks for the long run” theory: after correcting for survivorship bias, the equity risk premium comes and goes.

Summary: Stock returns before 1871 look different now because of the reduction in survivorship bias. The old record omitted the largest stock that traded before the Panic of 1837, the 2nd Bank of the United States. At the peak before the Panic hit, the 2nd BUS accounted for almost 30% of total US market capitalization. It failed as the Panic proceeded, with shares dropping in price from $120 to $1.50, and never recovered. Bond returns look more positive now, due to inclusion of corporate bonds, inclusion of a broader selection of federal and municipal bonds, and an adjustment for the greenback price of interest paid in gold coin between 1862 and 1879. The new data indicate that “Stocks for the Long Run” was built on a faulty premise: that the strong returns on stocks seen after World War II, combined with the poor returns on bonds through 1981, reflected a stationary process. The old historical record appeared to show that stocks had always returned 6% to 7% real and there had always been a substantial equity premium. The new data show that the 19th century, particularly the antebellum era, saw quite different returns than the 20th century, with repeated equity deficits. Unfortunately, the new data remain vulnerable to dismissal by practical investors, who may deem the results too old to be relevant. Related: Long-Term Shareholder Returns: Evidence From 64,000 Global Stocks and A Few Stocks Drive the Stock Market: Dot.com Vs. Today Vs. the Last 100 Years and Market Bipolarity: Exuberance versus Exhaustion

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