

# Excerpt from the 2016 Stocks, Bonds, Bills and Inflation (SBBI) Yearbook

## Business Valuation Resources, LLC

Thank you for visiting Business Valuation Resources, the leading data, research, and training provider for the business valuation profession. For more information about any of our premier valuation products or services, please contact us:

[bvresources.com](http://bvresources.com)  
+1-503- 291-7963  
[info@bvresources.com](mailto:info@bvresources.com)

# Chapter 1

## Results of U.S. Capital Markets in 2015 and in the Past Decade

### Large-Cap Stocks

The market for U.S. large-capitalization stocks is represented herein by the S&P 500 Total Return Index ("total return" includes the reinvestment of dividends).

U.S. Large-cap stocks posted a total return of 1.38% in 2015, down from 13.69% in 2014. Six months of 2015 produced positive returns; October delivered the highest return at 8.44%, while August's -6.03% was the lowest. An index of large-cap stock total returns, started at \$1.00 on December 31, 1925, increased to \$5,390.43 by the end of 2015, up from \$5,316.85 at the end of 2014.

### Small-Cap Stocks

U.S. small-cap stocks posted a total return of -3.60% in 2015, down from 2.92% in 2014. Six months of 2015 produced positive returns; October and February delivered the highest returns at 6.03% (each), while January and December's -4.90% (each) was the lowest. An index of small-cap stocks total returns, started at \$1.00 on December 31, 1925, increased to \$26,433.35 by the end of 2015, down from \$27,419.32 at the end of 2014.

### Long-term Corporate Bonds

U.S. long-term corporate bonds posted a total return of -1.02% in 2015, down from 17.28% in 2014. Seven months of 2015 produced positive returns; January delivered the highest return at 5.99%, while February's -3.20% was the lowest. An index of long-term corporate bonds total returns, started at \$1.00 on December 31, 1925, increased to \$187.82 by the end of 2015, down from \$189.76 at the end of 2014.

The bond default premium, or net return from investing in long-term corporate bonds rather than investing in long-term government bonds of equal maturity, was -0.37% in 2015, compared with -5.95% in 2014.

### Long-term Government Bonds

U.S. long-term government bonds posted a total return of -0.65% in 2015, down from 24.71% in 2014. Five months of 2015 produced positive returns; January delivered the highest return at 7.09%, while February's -5.23% was the lowest. An index of long-term government bonds total returns, started at \$1.00 on December 31, 1925, increased to \$132.03 by the end of 2015, down from \$132.90 at the end of 2014.

## **Intermediate-term Government Bonds**

U.S. intermediate-term government bonds posted a total return of 1.79% in 2015, down from 3.00% in 2014. Six months of 2015 produced positive returns; January delivered the highest return at 2.41%, while February's -1.23% was the lowest. An index of intermediate-term government bonds total returns, started at \$1.00 on December 31, 1925, increased to \$93.97 by the end of 2015, up from \$92.32 at the end of 2014.

## **Treasury Bills**

U.S. Treasury bills posted a total return of 0.02% in 2015, equal to the 0.02% posted in 2014. Eight months of 2015 produced positive returns; December delivered the highest return at 0.01016%, while October's -0.00193% was the lowest. An index of Treasury Bills total returns, started at \$1.00 on December 31, 1925, increased to \$20.59 by the end of 2015, up from \$20.58 at the end of 2014.

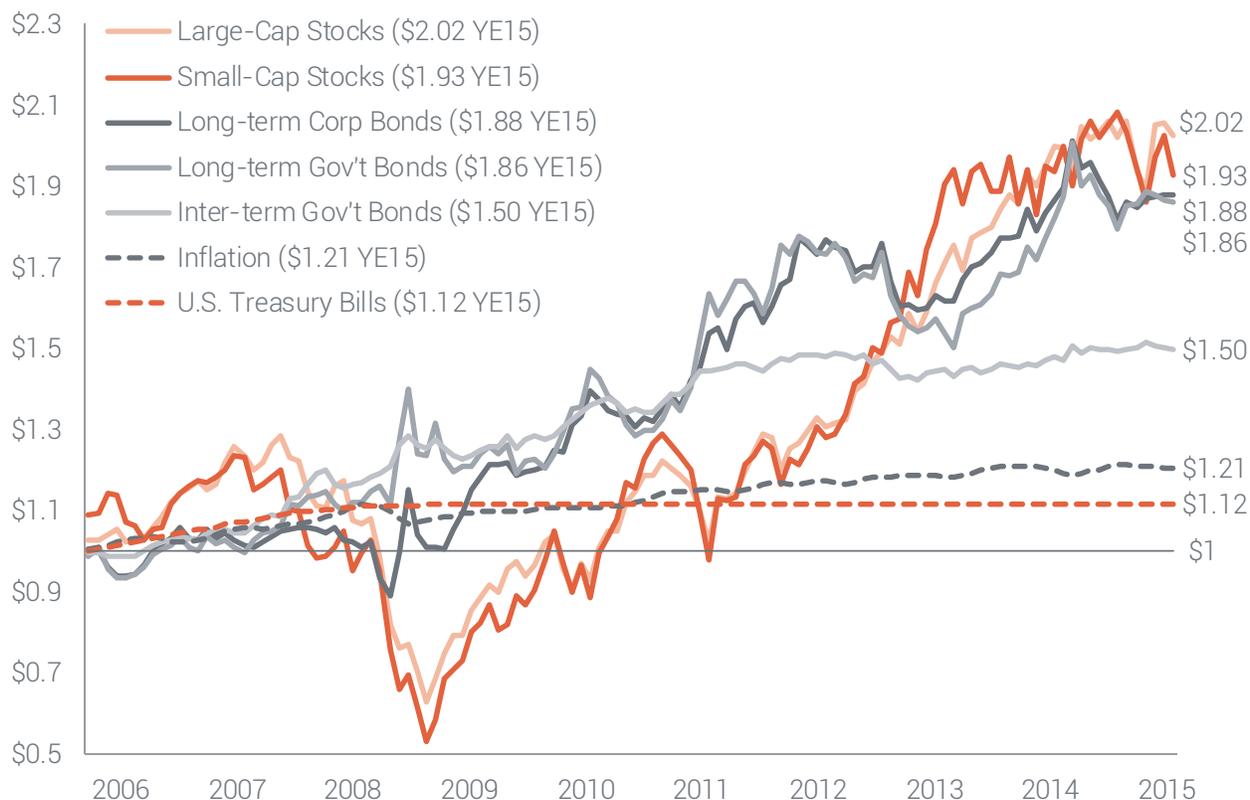
## **Inflation**

Inflation increased to 1.18% in 2015, compared to 0.76% in 2014. The result is lower than the long-term historical annual average (1926–2015) of 3.0%. Inflation has remained below 5% for 33 of the last 34 years (the exception was the 6.11% rate in 1990). A cumulative inflation index, beginning at \$1.00 at year-end 1925, finished 2015 at \$13.25, up from \$13.10 at year-end 2014. That is, a "basket" of consumer goods and services that cost \$1.00 in 1925 would cost \$13.25 today. The two baskets are not identical, but are intended to be comparable.

## **A Graphic View of the Decade**

Exhibit 1.1 shows the market results for the past decade illustrating the growth of \$1.00 invested on December 31, 2005, in stocks, bonds, and bills, along with an index of inflation. A review of the major themes of the past decade, as revealed in the capital markets, follows.

**Exhibit 1.1:** Wealth Indexes of Investments in U.S. Stocks, Bonds, Bills, and Inflation Index Over the Most Recent Decade (2006–2015) (Year-end 2005 = \$1.00)



### The Decade in Perspective

The great stock and bond market rise of the 1980s and 1990s was one of the most unusual in the history of the capital markets. In terms of the magnitude of the rise, these decades most closely resembled the 1920s and 1950s. These four decades accounted for a majority of the market's cumulative total return over the past 90 years. While the importance of a long-term view of investing is noted consistently in this book and elsewhere, the counterpart to this observation is this: to achieve high investment returns, one needs to participate only in the few periods of truly outstanding returns. The bull markets of 1922 to mid-1929, 1949–1961 (roughly speaking, the 1950s), mid-1982 to mid-1987, and 1991–1999 were such periods. More recently, in the 7-year period ending December 2015, an investor in large and small stocks would have realized annual compound returns of approximately 15% and 16%, respectively.<sup>1.1</sup>

<sup>1.1</sup> An investment of \$1.00 (each) at the end of December 2008 in large stocks and small stocks would have grown to \$2.63 and \$2.77, respectively, by the end of December 2015. This represents a compound annual return of 14.8% for large stocks, and 15.7% for small stocks over this 7-year (84-month) period.

The average annual compound rate of return of the basic SBBI series over the longer 1926–2015 period (90 years) is compared to the average annual compound rate of return of the SBBI series over the most recent 10-year period (2006–2015) in Exhibit 1.2, with the highest return for each time horizon highlighted in red.

**Exhibit 1.2:** Comparison of the Average Annual Compound Rate of Return of the Basic SBBI Series as Measured Over (i) the 1926–2015 Period (90 years) and (ii) the 2006–2015 Period (most recent 10 years)

<b>SBBI Series</b>	<b>1926–2015</b>	<b>2006–2015</b>
Large-Cap Stocks	10.0%	7.3%
Small-Cap Stocks	12.0%	6.8%
Long-term Corp Bonds	6.0%	6.5%
Long-term Gov't Bonds	5.6%	6.4%
Inter-term Gov't Bonds	5.2%	4.1%
U.S. Treasury Bills	3.4%	1.1%
Inflation	2.9%	1.9%

Looking to Exhibit 1.2, large-cap stocks, small-cap stocks, intermediate-term government bonds, and U.S. Treasury bills posted *lower* returns over the most recent 10-year period (2006–2015) than they did over the 1926–2015 period (90-year). Long-term corporate bonds and long-term government bonds, alternatively, posted *higher* returns in the 2006–2015 period than they did in the 1926–2015 period.

The annual rate of U.S. inflation over the 2006–2015 period was also lower than the rate experienced over the longer-term 1926–2015 period.

**Exhibit 1.3:** Compound Annual Rates of Return by Decade

<b>SBBI Series</b>	<b>1920s*</b>	<b>1930s</b>	<b>1940s</b>	<b>1950s</b>	<b>1960s</b>	<b>1970s</b>	<b>1980s</b>	<b>1990s</b>	<b>2000s</b>	<b>2010s**</b>
Large-Cap Stocks	19.2%	-0.1%	9.2%	19.4%	7.8%	5.9%	17.6%	18.2%	-0.9%	13.0%
Small-Cap Stocks	-4.5%	1.4%	20.7%	16.9%	15.5%	11.5%	15.8%	15.1%	6.3%	13.7%
Long-term Corp Bonds	5.2%	6.9%	2.7%	1.0%	1.7%	6.2%	13.0%	8.4%	7.6%	8.0%
Long-term Gov't Bonds	5.0%	4.9%	3.2%	-0.1%	1.4%	5.5%	12.6%	8.8%	7.7%	7.7%
Inter-term Gov't Bonds	4.2%	4.6%	1.8%	1.3%	3.5%	7.0%	11.9%	7.2%	6.2%	3.0%
U.S. Treasury Bills	3.7%	0.6%	0.4%	1.9%	3.9%	6.3%	8.9%	4.9%	2.8%	0.0%
Inflation	-1.1%	-2.0%	5.4%	2.2%	2.5%	7.4%	5.1%	2.9%	2.5%	1.6%

\* Based on the period 1926–1929. \*\* Based on the period 2010–2015

It is interesting to place the decades of superior performance in historical context. The 1920s were preceded by mediocre returns and high inflation and were followed by the most devastating stock market crash and economic depression in U.S. history. This sequence of events mitigated the impact of the 1920s bull market on investor wealth. Nevertheless, the stock market became a liquid secondary market that decade, rendering it important for reasons other than return. In contrast, the 1950s were preceded and followed by decades with roughly average equity returns. The 1980s were preceded by a decade of "stagflation," where modest stock price gains were seriously eroded by inflation and were followed by a period of stability in the 1990s.

The bond market performance of the 1980s and 1990s has no precedent. Bond yields, which had risen consistently since the 1940s, reached unprecedented levels in 1980–1981. (Other countries experiencing massive inflation have had correspondingly high interest rates.) Never before having had so far to fall, bond yields dropped further and faster than at any other time, producing what is indisputably the greatest bond bull market in history. Unfortunately, the boom came to an end in 1994. After falling to 21-year lows one year earlier, bond yields rose in 1994 to their highest level in over three years. Both long-term and intermediate-term government bond yields have generally fallen since 2000.

The historical themes of the past decade, as they relate to the capital markets, can be summarized in three observations. First, the 17.5-year period starting in mid-1982 and ending in 1999 was a rare span of time in which investors quickly accumulated wealth.

Second, the postwar aberration of ever-higher inflation rates ended with a dramatic disinflation in the early 1980s. In the 1990s, inflation was a relatively low 2.9% compound annual rate compared to the long-term compound annual rate as of the end of that decade (1926–1999), which was 3.1%. The trend of relatively low inflation continued in the 2000s, and in more recent periods. For example, the long-term compound annual rate of inflation over the 1926–2015 period (90 years) was 2.9%, but the compound annual rate over the 2000–2009 period, the most recent 10-year period (2006–2015), and the 2010–2015 period were all significantly lower at 2.5%, 1.9%, and 1.6%, respectively.

Finally, participation in the returns of the capital markets since 1982 reached levels not approached in the 1920s, the 1950s, or even in the atypical boom period of 1967–1972. The growth since 1982 in the importance of pension funds and defined contribution pension plans, like the 401(k), as well as the rapidly increasing popularity of stock and bond mutual funds and exchange-traded products as basic savings vehicles, have enabled more individuals to experience the returns of the capital markets than ever before.

## Market Results for 2006–2015

Exhibit 1.4 (next page) presents (i) annual total returns for 2006–2015, (ii) quarterly and monthly total returns on the six basic asset classes and inflation for 2015, and (iii) cumulative indexes of the returns based on a starting value of \$1.00 invested on December 31, 1925.

Exhibit 1.4 provides the Reader with a plethora of information about the more recent performance of the basic SBBI series which can be used to analyze recent trends. For example, large-cap stocks performed reasonably well in the most recent 10-year period (2006–2015), with 2013 providing the greatest annual return of 32.39%. The only negative return was -37.00% in 2008. Small-cap stocks did not perform as well as large-cap stocks did over the most recent decade, and had more years of negative returns than large-cap stocks, with 2007, 2008, 2011, and 2015 providing -5.22%, -36.72%, -3.26%, and -3.60%, respectively. In 2013 small-cap stocks posted their largest annual returns of the decade, 45.07%, which did eclipse the 32.39% posted by large-cap stocks that year.

**Exhibit 1.4:** Returns and Indices of Returns on Stocks, Bonds, Bills, and Inflation; Annual, Quarterly, and Monthly Market Results, in Percent (%)

**2006–2015 Annual Returns**

Period	Large-Cap Stocks	Small-Cap Stocks	Long-term Corp Bonds	Long-term Gov't Bonds	Inter-term Gov't Bonds	U.S. Treasury Bills	Inflation
2006	15.79	16.17	3.24	1.19	3.14	4.80	2.54
2007	5.49	-5.22	2.60	9.88	10.05	4.66	4.08
2008	-37.00	-36.72	8.78	25.87	13.11	1.60	0.09
2009	26.46	28.09	3.02	-14.90	-2.40	0.10	2.72
2010	15.06	31.26	12.44	10.14	7.12	0.12	1.50
2011	2.11	-3.26	17.95	27.10	8.81	0.04	2.96
2012	16.00	18.24	10.68	3.43	1.66	0.06	1.74
2013	32.39	45.07	-7.07	-12.78	-3.68	0.02	1.51
2014	13.69	2.92	17.28	24.71	3.00	0.02	0.76
2015	1.38	-3.60	-1.02	-0.65	1.79	0.02	1.18

**2015 Quarterly Returns**

Period	Large-Cap Stocks	Small-Cap Stocks	Long-term Corp Bonds	Long-term Gov't Bonds	Inter-term Gov't Bonds	U.S. Treasury Bills	Inflation
I-15	0.95	3.14	3.19	2.87	1.91	0.00	0.56
II-15	0.28	1.02	-7.28	-6.92	-0.62	0.00	1.07
III-15	-6.44	-10.78	3.05	5.22	1.62	0.00	-0.29
IV-15	7.04	3.70	0.39	-1.39	-1.09	0.01	-0.15

**2015 Monthly Returns**

Month	Large-Cap Stocks	Small-Cap Stocks	Long-term Corp Bonds	Long-term Gov't Bonds	Inter-term Gov't Bonds	U.S. Treasury Bills	Inflation
Dec-14	-0.25	3.37	1.83	2.90	-0.60	0.00	-0.57
Jan-15	-3.00	-4.90	5.99	7.09	2.41	0.00	-0.47
Feb-15	5.75	6.03	-3.20	-5.23	-1.23	0.00	0.43
Mar-15	-1.58	2.29	0.58	1.37	0.74	0.00	0.60
Apr-15	0.96	-1.95	-2.23	-2.50	-0.14	0.00	0.20
May-15	1.29	1.38	-2.04	-1.59	0.05	0.00	0.51
Jun-15	-1.94	1.63	-3.20	-2.98	-0.53	0.00	0.35
Jul-15	2.10	-2.44	2.39	3.29	0.51	0.00	0.01
Aug-15	-6.03	-4.43	-0.67	0.12	0.11	0.00	-0.14
Sep-15	-2.47	-4.31	1.33	1.74	0.99	0.00	-0.16
Oct-15	8.44	6.03	0.20	-0.53	-0.52	0.00	-0.04
Nov-15	0.30	2.84	0.20	-0.65	-0.40	0.00	-0.21
Dec-15	-1.58	-4.90	0.00	-0.22	-0.17	0.01	0.11

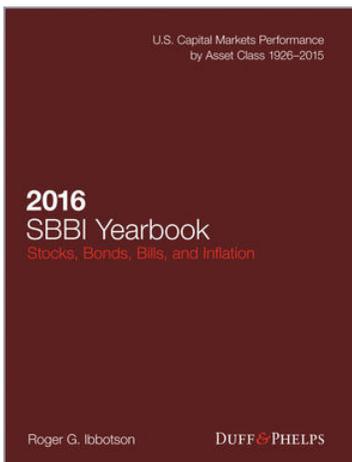
**2006–2015 Annual Indices**

Year	Large-Cap Stocks	Small-Cap Stocks	Long-term Corp Bonds	Long-term Gov't Bonds	Inter-term Gov't Bonds	U.S. Treasury Bills	Inflation
2006	3,083.564	15,922.427	103.178	71.694	64.643	19.287	11.257
2007	3,252.974	15,091.094	105.858	78.779	71.142	20.186	11.717
2008	2,049.444	9,548.943	115.154	99.161	80.466	20.509	11.728
2009	2,591.819	12,230.866	118.628	84.383	78.532	20.529	12.047
2010	2,982.234	16,054.698	133.384	92.942	84.121	20.553	12.227
2011	3,045.212	15,532.068	157.324	118.130	91.533	20.562	12.589
2012	3,532.552	18,364.597	174.120	122.180	93.054	20.574	12.808
2013	4,676.681	26,641.173	161.802	106.571	89.630	20.579	13.001
2014	5,316.849	27,419.318	189.762	132.900	92.316	20.583	13.100
2015	5,390.425	26,433.349	187.822	132.032	93.970	20.586	13.254

**2015 Monthly Indices**

Month	Large-Cap Stocks	Small-Cap Stocks	Long-term Corp Bonds	Long-term Gov't Bonds	Inter-term Gov't Bonds	U.S. Treasury Bills	Inflation
Dec-14	5,316.849	27,419.318	189.762	132.900	92.316	20.583	13.100
Jan-15	5,157.241	26,075.771	201.120	142.323	94.542	20.583	13.038
Feb-15	5,453.636	27,648.140	194.678	134.875	93.381	20.583	13.095
Mar-15	5,367.389	28,281.283	195.807	136.717	94.076	20.583	13.173
Apr-15	5,418.879	27,729.798	191.443	133.295	93.945	20.584	13.199
May-15	5,488.562	28,112.469	187.541	131.172	93.989	20.584	13.267
Jun-15	5,382.314	28,570.702	181.545	127.260	93.493	20.584	13.313
Jul-15	5,495.080	27,873.577	185.882	131.448	93.967	20.583	13.314
Aug-15	5,163.541	26,638.777	184.631	131.603	94.072	20.584	13.295
Sep-15	5,035.777	25,490.646	187.084	133.898	95.005	20.584	13.274
Oct-15	5,460.566	27,027.732	187.455	133.183	94.513	20.584	13.268
Nov-15	5,476.805	27,795.320	187.821	132.321	94.132	20.584	13.240
Dec-15	5,390.425	26,433.349	187.822	132.032	93.970	20.586	13.254

## Industry standard performance data reference: Stocks, Bonds, Bills and Inflation (SBBI) Yearbook



**\$185.00 print**

The *2016 Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook* is the industry standard performance data reference, with comprehensive records dating back to 1926. Covering common stocks, long-term government bonds, long-term corporate bonds, Treasury bills, and the Consumer Price Index, this book provides the essential information advisors, planners, and brokers need to analyze asset class performance.

### The gold-standard reference industry-wide

As the go-to reference for information and capital market returns, this book provides investors with the critical background they need to analyze future investments. With the most complete historical data available, investors will be able to:

- Find annual index levels and total rates of return for five basic asset series
- Access historical return figures for four component series
- Estimate cost-of-capital based on comprehensive, reliable data
- Make informed judgments about future investment opportunities

Learn more and order this must-have reference at:  
**[bvresources.com/publications](http://bvresources.com/publications)**

If you prefer, fax this form to our secure line: (503) 291-7955 or call (503) 291-7963

**Yes!** I'd like to order the 2016 Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook - \$185.00 (+\$9.95 S&H)

Name: \_\_\_\_\_ Firm: \_\_\_\_\_

Address: \_\_\_\_\_ City, State, Zip: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_ E-mail: \_\_\_\_\_

#### Billing Information:

Visa  Mastercard  AMEX  Check payable to: Business Valuation Resources, LLC

Credit Card #: \_\_\_\_\_ Exp. Date: \_\_\_\_\_ Sec. Code: \_\_\_\_\_

Cardholder Name & Address (if different): \_\_\_\_\_