



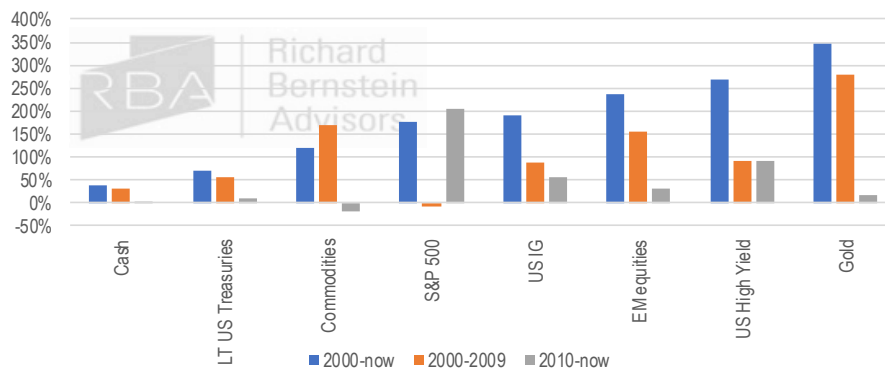
S&P 500® for the long run?

Big market dislocations often occur when long-standing investor assumptions are called into question. It’s always important to ask: what are today’s “obvious” assumptions and where could they be wrong? Here we discuss one that has been gaining momentum in recent years:

“Buy and hold the S&P 500® to outperform for the long-term.” Since the start of this bull market, \$100,000 invested in the S&P 500® would be worth over \$500,000 today, which is \$150,000-\$400,000 more than it would be worth had it been invested in most other assets. Thus, any diversification away from US equities has generally detracted from performance, and investors have been increasingly asking whether they shouldn’t just own the S&P 500® and nothing else. While we have been consistently overweight US stocks, we do not agree with just owning the S&P 500® for the long term. In addition to the [points that Rich has made on diversification](#), we would also point out that, just as the S&P 500® has gone through a prolonged period of outperformance, it has also experienced prolonged periods of underperformance.

Recency bias always dominates investor psychology. Not only would investors who had just owned US stocks for the first decade of this century (2000-2009) have missed out on 170% returns for commodities, 150%+ returns from emerging market stocks and ~90% returns for US corporate bonds, but they would have also lost money over that time period (S&P 500®: -9% including dividends). In fact, even with the strong outperformance this cycle, the S&P 500® has underperformed emerging market equities, gold and corporate bonds since the turn of the century. So while it might feel like US stocks are the only game in town, that won’t always be the case, and diversification is likely to be paramount to performance over the next 3-5 years.

Asset returns since 2000



Source: Richard Bernstein Advisors LLC, Bloomberg

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