

What is a Good Return?

Many investors are relying on the stock market to grow their wealth and fuel their retirement. The problem with the stock market is how it behaves in the short term; it can fluctuate significantly over short periods of time. By short term, I mean anything less than a decade.

Between 2000 and 2010 the stock market had a negative absolute return. Imagine the impact on your purchasing power if most of your retirement accounts lost value over the next decade. Conversely since 2010, the S&P 500 has averaged 13.14% per year. When you combine the bad decade of the 2000's and the market's performance since 2010 you have a total return of 7.46%.*

The average mutual fund investor, however, tends to underperform the stock market by 3-4% per year** because of fees and market timing. Since the market tends to deliver feast or famine returns, if an investor can make investments that deliver average market returns of 7-8% with less volatility and more predictability, they will be ahead of most investors.

An 8% return is considered excellent as the average annual return of the stock market, represented by indexes like the S&P 500, has been around 7% to 10%. Achieving an 8% return indicates performance that aligns with or exceeds the market average, which is commendable for any investor. An 8% return can significantly outpace inflation, thereby preserving and increasing the purchasing power of invested capital.

Inflation erodes the value of money over time, meaning that investments must generate returns above the inflation rate to maintain or enhance real wealth. Historically, inflation in developed economies has averaged around 2% to 3% annually. Thus, an 8% return provides a substantial buffer against inflation, ensuring that investors' wealth grows in real terms.

Investors who want more predictability should consider allocations to private credit funds, structured notes, and private mortgages, all of which provide predictable returns in the 8-10% range. Investors who can consistently achieve an 8% return are well positioned to build significant wealth over the long term and achieve their financial objectives.

*Yahoo Finance

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