

EDHEC
BUSINESS SCHOOL

Long-Term Investing

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Drawing on research with David Chambers, Antti Ilmanen and Paul Rintamäki forthcoming in *Annual Review of Financial Economics*, November 2024

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Easy-data bias

Country	Previous standard study (%)	Triumph of the Optimists (%)
Aus	7.5	8.1
Bel	2.6	4.8
Can	6.4	0.6
Den	5.2	2.7
Fra	3.9	5.2
Ger	3.6	4.9
Ire	5.6	9.0
Ita	2.7	8.5
Jap	4.6	4.6
Neth	5.8	4.2
Spa	4.5	4.5
Swe	8.0	2.7
Swi	5.0	1.2
UK	5.8	1.6
US	6.7	0.7
AVG	5.2	3.1

Prior to "Triumph", studies had used data for periods after economic trauma had ended

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Source: Dimson-Marsh-Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, Table 3-4

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The equity-bond premium

Country	Equities	Bonds	Bills	Ex-rate
USA	2443	7.8	1.8	1.0
UK	647	6.2	3.2	0.6

Since 1900, equities beat bonds in the USA and in the UK. Was this pattern universal?

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Source: Dimson-Marsh-Staunton, *Global Investment Returns Yearbook 2024* Figures 154 and 156

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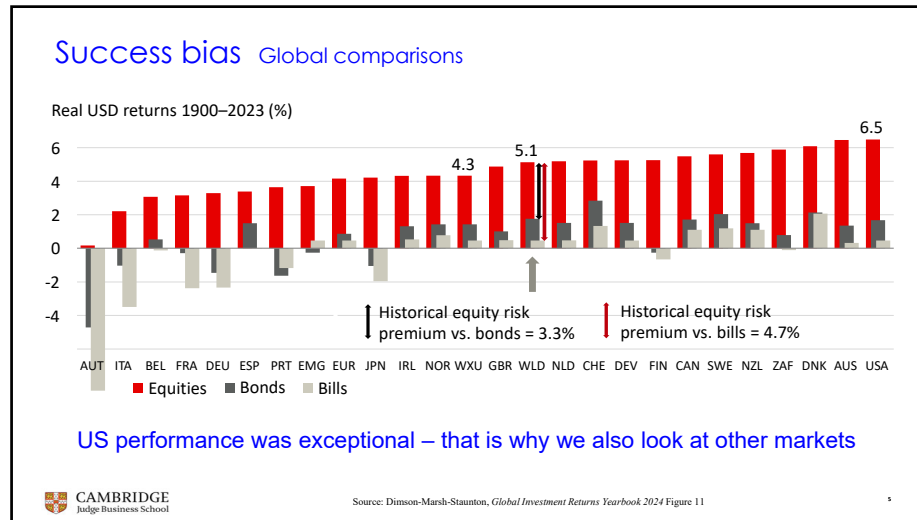
We look beyond the market leaders

Country	Percentage
USA	60.5
GBR	24
JPN	11
DEU	13
FRA	11
CAN	17
AUS	15
NLD	13
CHE	11
RUS	11
AUT	11
CHN	11
OTH	14

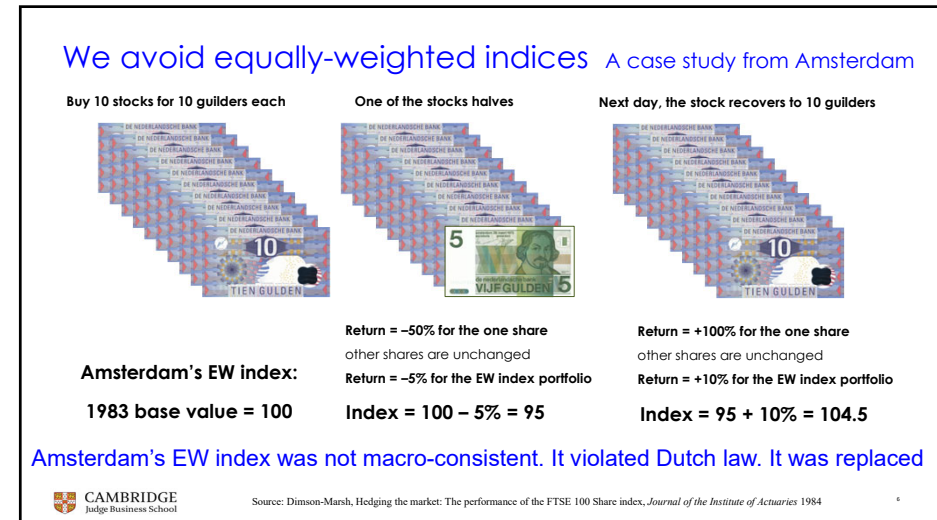
UK was largest stock market. Japan briefly became largest. Today, US dominates

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Source: Dimson-Marsh-Staunton, *Global Investment Returns Yearbook 2024* Figure 3

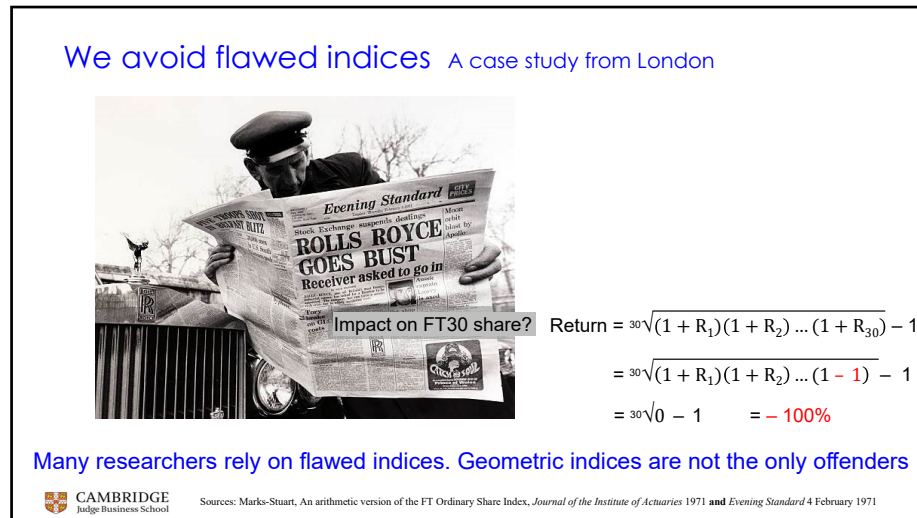
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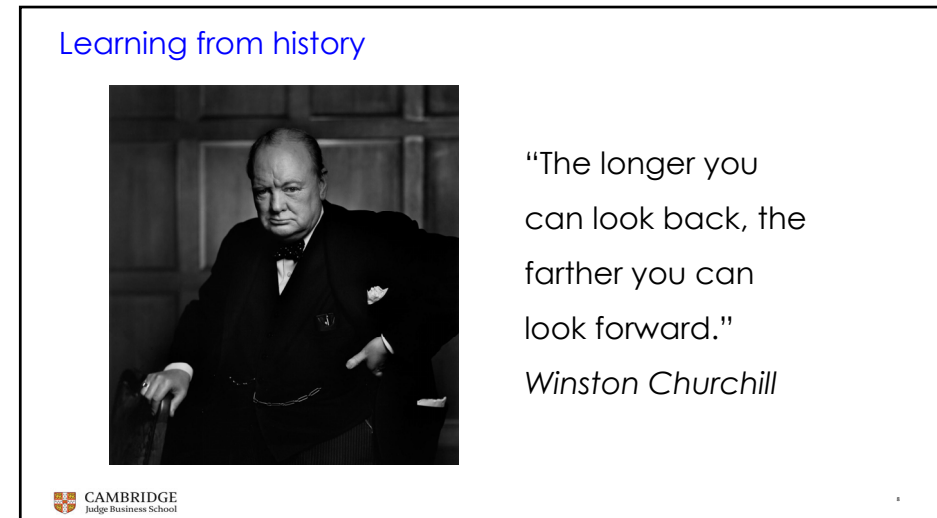
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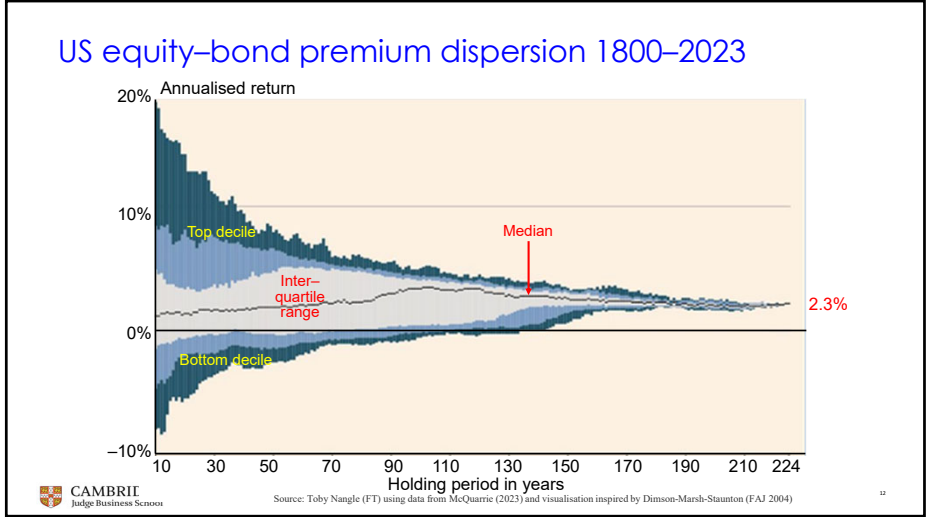
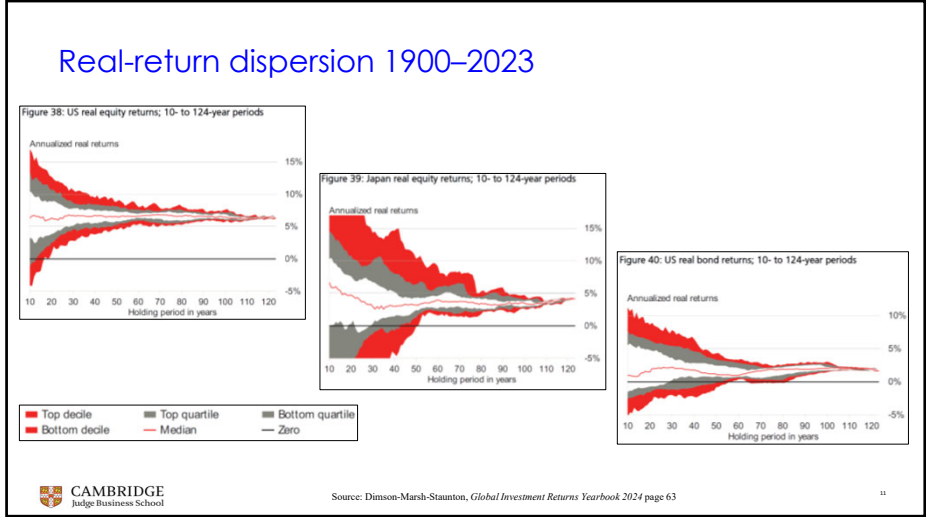
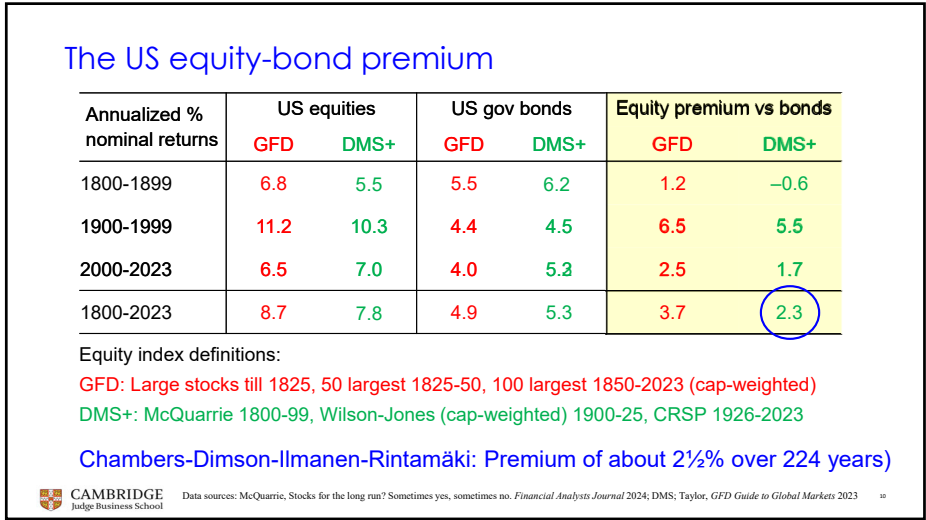
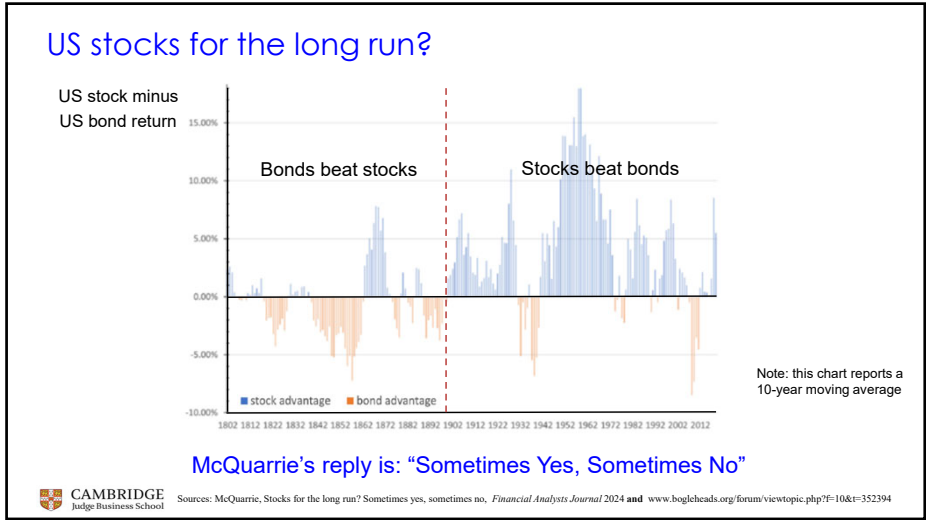
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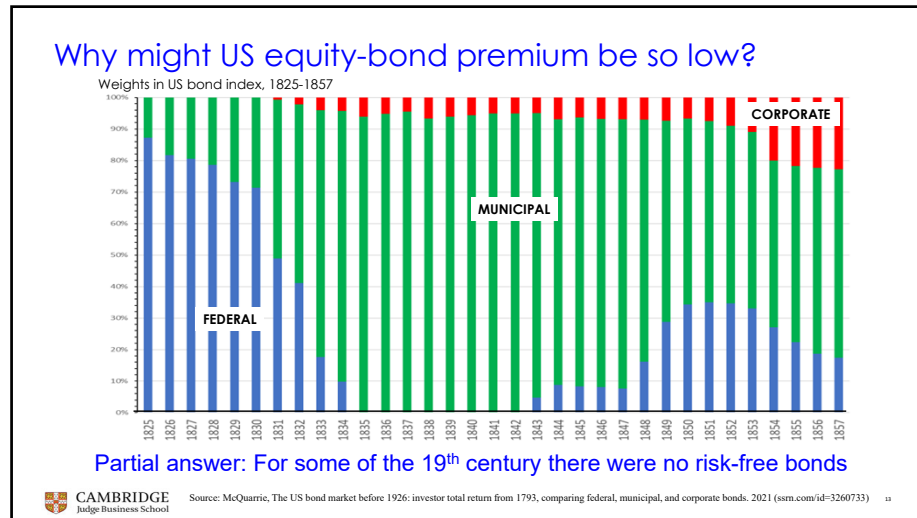


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The UK equity-bond premium

Annualized % nominal returns	UK equities		UK gov bonds		Equity premium vs bonds	
	GFD	DMS+	GFD	DMS+	GFD	DMS+
1800-1899	5.5	5.4	4.0	4.0	1.4	1.4
1900-1999	10.1	10.2	4.9	5.4	5.0	4.6
2000-2023	4.5	4.5	3.7	3.9	1.1	0.6
1800-2023	7.4	7.4	4.4	4.6	2.9	2.7

Equity index definitions:
GFD: Large stocks at first, then ≤100 largest 1850-1983, then FTSE100 index 1984-2023
DMS+: Golez-Koudijs 1800-29, Campbell-Grossman-Turner 1830-99, and DMS1900-2023

Chambers-Dimson-Ilmanen-Rintamäki: Premium of about 2½% over 224 years

CAMBRIDGE Judge Business School Data sources: Campbell-Quinn-Turner-Ye, What moved share prices in the nineteenth-century London stock market? *EJR*, 2018 71(1):157-189; Koudijs; Taylor; DMS 11

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Estimating long-run returns

What matters

- data sources, measurement choices, estimation methods, potential bias
- small differences in premia have a large impact on terminal wealth

What we find

- equity investors triumphed in 20th century but not in the 19th century

Other findings

- evidence of a modest credit premium
- potential case for commodity futures
- no evidence to support view that housing is low-risk and high-return

CAMBRIDGE Judge Business School Source: Chambers-Dimson-Ilmanen-Rintamäki, Long-run asset returns, *Annual Review of Financial Economics* Vol. 16, forthcoming November 2024 11

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Conclusions



- US stock market returns were exceptional...
... and that may not be repeated in the future
- The 20th century was exceptional...
...and that may not be repeated in the future
- What should investors do?
 - Diversify internationally
 - Diversify across asset classes
 - Minimise cost-drag