Investing lessons from 114 years of data

The Barclays Equity Gilt Study is the UK's leading source of data and analysis on long-term market returns.

"Time in the market is more important than timing the market," goes the old investment adage. In other words: it is very difficult to know when prices are likely to rise or fall, so most people will do better to stay invested through the ups and downs, rather than trying to time the market.

There's a considerable amount of evidence to support this claim. However, achieving good long-term returns isn't just about being in any markets for as long as possible – it's about being in the right markets for as long as possible.

This said, it's important to appreciate that past performance of investments is not necessarily a reliable indicator of their future returns.

The Barclays Equity Gilt Study gives us a picture of what the "right" markets have been over the past 114 years. It is the UK's foremost source of data and analysis on long-term asset returns, with data going back to 1899. The study has been published every year since 1956 with a huge range of findings, but its most important message has remained consistent throughout that time: over the long term, equities have delivered better returns on average than cash or bonds.

The study shows that UK shares have produced an average "real" (adjusted for inflation) annual return of 5.1 per cent. That compares with 1.2 per cent for government bonds (gilts) and 0.8 per cent for cash.

Not many of us have a 100-year investment horizon, but the same holds true for shorter periods. Over 50 years, equities have produced annualised real returns of 5.5 per cent a year, while gilts have delivered 2.5 per cent. Over 20 years, the respective figures are 4.1 per cent and 3.5 per cent.

Of course, equities have also been much more volatile than bonds. Many investors will remember 2008, when the value of the UK stock market fell by over 30 per cent. Share prices can fall for several years in a row, as we last saw at the turn of the century.
That suggests it's important not to be scared out of shares by a few bad years. Historically, the longer investors have held shares, the greater their chances of generating greater returns than they would have done with an equivalent investment in bonds.
According to the data, an investor holding shares for 10 consecutive years has had a 79 per cent chance of outperforming gilts over those 10 years. Holding shares for 18 successive years has raised the odds of beating gilts to 88 per cent.

Of course, past performance is no guarantee of future performance. But the fact that shares have beaten bonds over the long run is what we would expect in a properly functioning economy, since shareholders participate in the growth of companies and industries while

bondholders are only entitled to fixed returns.