



Portfolio strategy: Ken Fisher

Forbe's Magazine's Portfolio Strategy columnist and Fisher Investments chief executive KEN FISHER discusses a new book that has convinced him of the advantages of a global spread of developed-market investment

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Lessons of a hundred years in the markets

The UK has trumped the US – three London Business School academics have created by far the most important investment book in years.

Triumph of the Optimists by Elroy Dimson, Paul Marsh and Mike Staunton (Princeton University Press) might seem expensive at £69, but is well worth it if you are interested in markets, offering much that is new and valuable.

It is the best and most complete source of data yet available, covering 101 years of global market returns, and offers great lessons. If you spend an hour with it and don't learn something worth the price then you're truly lousy at learning about markets.

I've studied market history much more than most people and written two books on it. But I learnt lots from the book. My history has been too limited to the US and UK. This book broadens horizons while teaching still more about the US and UK.

Lessons include how long-term returns in developed markets have been more similar over time than most investors would expect. The developed markets as a whole are about the same proportion of the global market now as they were 100 years ago, which again most people wouldn't presume.

In some ways they are a higher share – if you are prepared to accept Russia was never really a developed market. Russia constituted roughly 11% of 1900's global stockmarket value. This implies that maybe emerging-market investing has never been more than wild casino



activity for thrill seekers because, overall, it hasn't been a winner over 100 years. How long must you wait?

Although the real return (inflation-adjusted) from US stocks has been higher than in Europe over the century, it has been less than you might expect. In fact less than 1% higher than in the UK. The book clearly documents that a global approach across developed markets would have generated more consistent and less risky returns than concentrating on any single country.

Which country actually had the highest real returns over the century? The answer is Australia. But again, the excess return averaged only 80 basis points a year above the US and 170 above the UK – hardly enough to justify putting all your eggs down under for 100 years.

And though the US was already the biggest market in 1900, with 22% of the global total – and its high returns and ever-increasing equity offerings slightly more than doubled its share to 46% in

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2000 – still the book documents that a US investor would have done better overall at lower-risk investing throughout the developed markets.

Surprisingly, this was truer in the second half of the century than in the first. Just as surprising, the Sharpe ratio (a portfolio's excess return divided by the standard deviation of the return – a standard risk/reward measure) since 1950 was amazingly high in such countries as France, Italy, Spain, Denmark, Ireland and Belgium.

Even bond investors will find much here to alter their thinking. Many of the same points about a global orientation apply. For example, a UK investor would have effectively seen no real return on owning gilts from 1900 to 1950, but could have gained return and lowered risk by spreading bond holdings across developed markets. Since 1950, the returns have been higher but the same global principle would have been rewarded even more consistently.

There is lots more in this book, including global investigations of big-cap versus small-cap investment, growth versus value, the equity risk premium and exchange rates. Right now, buying this book makes more sense than buying stocks. BNA

Bloomberg Money has three copies of *Triumph of the Optimists* to give away to the first three names out of the editor's hat. To enter the draw, please send your name and address to *Optimists Offer*, Bloomberg Money, 7 Air Street, London W1B 5AD by 6 May 2002.