Practitioner Brief

A GUIDE FOR FINANCIAL PRACTITIONERS

Exponential Wealth: Centuries of Stock and Bond Returns

Roger G. Ibbotson, PhD

Practitioner Brief written by Mark Fortune

CFA Institute Research Foundation

For investment practitioners, *Exponential Wealth: Centuries of Stock and Bond Returns* is not simply a historical record. It is a practical guide to using long-run stock and bond data more carefully when setting capital market assumptions, evaluating risk premiums, building portfolios, and communicating expectations to clients and investment committees.

Drawing on market data from 1926 and earlier, the book brings together chapters by leading authors who interpret the evidence and present new research on historical returns, risk premiums, compounding, inflation, diversification, and future return forecasts. Its publication marks the 50th anniversary of Roger Ibbotson's 1976 articles with Rex Sinquefield on "Stocks, Bonds, Bills, and Inflation" and the 100th anniversary of the dataset. For practitioners, the central question is how to use that evidence without treating history as destiny.

Ibbotson and his co-authors show how the returns on equities create great wealth over long periods of time, why that wealth can be difficult to capture in practice, and how financial practitioners should use history when forming expectations about the future. (Bonds create less wealth but are still an important part of one's portfolio.) In addition to presenting US market data from 1926 to 2025, this CFA Institute Research Foundation book covers earlier centuries and other countries and sets forth forecasts of future returns and risk premiums.

Exponential Wealth delivers a practical central message: Long-term compounding is powerful yet not automatic. Capturing it requires reinvestment of dividend and coupon income, time in the market, diversification, cost control, inflation awareness, and behavioral discipline. In addition, because not all markets survive over long holding periods, diversification into global markets—not just one country—is essential. US equities produced an extraordinary amount of wealth over the long 1926–2025 period, but the path was volatile, the US experience was unusually successful, and the future may not repeat the past.

Use this brief to

- translate long-run market evidence into investor guidance.
- set realistic expectations for clients and committees.
- strengthen portfolio construction decisions.
- help investors capture more of the market return.
- frame forecasts as planning tools.

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Why This Book Matters Now

We are at a transition point in the history of Stocks, Bonds, Bills, and Inflation® (SBBI®)-style capital market data. The original SBBI framework, introduced by Ibbotson and Sinquefield in 1976 and updated frequently since then, transformed investment practice by documenting the long-run returns on stocks, bonds, and bills along with rates of inflation. This book updates and extends that tradition with new Ibbotson Equity and Bond Indices based on CRSP data that cover the 100-year period 1926 through 2025.

The timing matters because many investors, committees, and clients continue to rely heavily on historical US returns when setting expectations. The book confirms that the US equity market had extraordinary power in delivering exponential wealth; however, evidence across countries, centuries, and asset classes cautions that the US experience should not be treated as a universal law. Chapters on global markets, older US data, the commodity futures market, and the experience of Japan and China all reinforce the need for discipline when using history to forecast future returns. Investors must bear in mind that there is only so much we can know about the future and that one must adapt as economies evolve and conditions change.

Key Findings

- **US equities created extraordinary long-run wealth, but the path was difficult.** Capturing equity returns required reinvestment, patience, and the ability to withstand severe drawdowns.
- **Total-return data matter.** Price-only returns miss the central role of dividends, bond coupons, and the reinvestment of this income back into the markets that created these cash flows.
- **The US experience was unusually successful.** Global and historical evidence should temper US-only return assumptions.
- **Forecasts should be probabilistic.** Long-horizon expectations should be presented as ranges of possible outcomes instead of as single-point predictions.

Who Should Read This Book?

Exponential Wealth is intended for investment professionals who use long-run capital market history as a guide to portfolio design, capital market assumptions, risk management, and client communication. These professionals include the following:

- **CIOs, asset allocators, and portfolio managers.** The book provides a strong evidence base for strategic asset allocation, probabilistic projections of results, glide paths, and other investment policy decisions.
- **Analysts.** It helps analysts compare asset classes, decompose sources of return, and assess whether observed risk premiums are economically meaningful or merely historical artifacts.
- **Advisers.** It gives advisers clearer language and historical evidence to explain compounding, inflation, drawdowns, and investor discipline to clients.
- **Risk officers.** The book supports better oversight by highlighting model risk, tail risk, index construction issues, nonstationarity, and data-quality limitations.
- **Traders and tactical allocators.** It helps frame bubbles, crashes, volatility regimes, and the limits of short-horizon predictability, reducing overconfidence in forecasts and discouraging market timing.

What Does This Book Deliver?

Each section of *Exponential Wealth* gives practitioners a different lens on long-run market evidence—from the mechanics of compounding to the historical record, global context, and forward-looking return expectations.

- **Section 1** explains how exponential wealth is created. It shows how total return, compounding, inflation, and reinvestment drive long-term wealth—and why costs, taxes, poor timing, insufficient savings, and behavioral mistakes prevent many investors from capturing it.
- **Section 2** rebuilds the 100-year history of US market returns and risk. It provides an up-to-date 1926–2025 record for US equities, Treasury bonds and bills, inflation rates, stock market drawdowns, bubbles and

crashes, bond yields and returns, and the equity risk premium.

- **Section 3** places US markets in global and historical context. It extends the analysis across countries, centuries, asset classes, and market regimes, helping practitioners to avoid overreliance on US-only history.
- **Section 4** uses market history and other information to create forward-looking guidance. It examines risk-premium persistence, return distributions, and forecasting methods. The book concludes with a probabilistic forecast of about an 8.0% nominal and 5.6% real geometric mean (compound annual) total return on US equities, with actual results expected to differ, possibly widely, from these forecast numbers.

Metrics That Matter

- **Total return:** Captures price change plus dividends, coupons, and reinvested income. It is the essential measure of long-term wealth creation.
- **Real return:** Adjusts returns for inflation and shows the growth rate of purchasing power.
- **Equity risk premium:** Measures compensation for holding equities instead of lower-risk assets.
- **Drawdown:** Shows the depth and duration of losses that investors must withstand to capture long-run returns.
- **Forecast range:** Frames expectations probabilistically rather than as a single number.
- **After-cost, after-tax return:** Focuses on what investors actually keep after fees, taxes, and implementation costs.

Practitioner Toolkit

The toolkit below maps the book's findings to the categories of professionals described earlier. Those who rely on long-run market evidence to shape portfolio choices, capital market assumptions, risk controls, client conversations, and governance decisions will benefit from this knowledge.

Role	Primary Uses	Key Question	Main Benefit
Investment analysts, portfolio managers, CIOs, and asset allocators	Decompose stock, bond, bill, inflation, and commodity returns; compare risk premiums; support asset allocation, glide paths, rebalancing, capital market assumptions, and investment policy decisions.	Which sources of return are durable, which assumptions rely too heavily on US history, and which premiums have economic support rather than reflect historical artifacts?	Better investment decisions, stronger return attribution, more robust assumptions, and more disciplined portfolio governance.
Traders and tactical allocators	Frame crashes, bubbles, drawdowns, and volatility regimes.	Is this signal durable or a short-term regime effect?	Better risk framing and less overconfidence in market-timing signals.
Advisers	Explain compounding, inflation, time horizon, and drawdowns; set saving-rate and spending-rate policies.	Can the client withstand the path required to earn the long-term return?	Stronger client education and behavioral coaching.
Risk officers	Assess model risk, index quality, skewness, kurtosis, and nonstationarity as market characteristics.	Do models capture tail risk, drawdowns, and regime shifts?	Stronger stress testing and risk oversight.

Bottom Line: Practical Applications

- **Use adjusted long-run history.** Account for inflation, changes in valuation, survivorship bias, aspects of index design, nonstationarity of return and risk measures, and the unusually strong US experience.
- **Build portfolios for the journey rather than the endpoint.** Plan for drawdowns, costs, diversification, investor staying power, and the requirement to reinvest.

- **Rely only on risk premiums that have a clear economic rationale.** Favor taking risks that have a clear long-term payoff, require compensation for illiquidity, and overweight assets that other investors avoid. Do not rely on backtests alone.
- **Present forecasts as ranges, not promises.** Frame the book's 2026–2050 US equity forecast—about 8.0% nominal and 5.6% real—as a baseline or central tendency among many possible outcomes.
- **Make behavior and governance central.** Long-term wealth creation requires patience, rebalancing discipline, cost control, diversification, and the ability to stay invested.

Related Content on the CFA Institute Research and Policy Center

- ***Stocks for the Long Run Revisited: Dividends and "The Return Nobody Got"***

  Best paired with the book's discussion of compounding, total return, dividend reinvestment, and the gap between market returns and investor experience.

- ***Stocks for the Long Run? New Evidence, Old Debates***

  A strong companion to the book's global and historical sections, especially its caution against overgeneralizing from modern US history.

- ***The Performance of the 60/40 Portfolio: A Historical Perspective***

  Useful for applying the book's evidence to strategic asset allocation, stock–bond correlations, market-specific risks, and the role of alternatives.

- ***The Future of the 60/40 Allocation: Modelling the Performance of the 60/40 Portfolio in Retirement***

  Useful for practitioners translating long-run return evidence into retirement planning and portfolio sustainability analysis.

- ***Revisiting the Equity Risk Premium***

  Highly relevant to the book's equity-risk-premium chapters and forward-looking forecast discussion.

- **"Estimating Long-Term Expected Returns"** (*Financial Analysts Journal* article)

  A strong methodological companion to Section 4, especially for estimating 10- and 20-year expected returns using yield, growth, and valuation.