

You can see that in some countries whole decades went by with no realised equity premium, as in Germany in the 1930s, Japan in the 1940s, the 1990s and the 2000s and, in the last half decade, in many of the European Union nations.

But just because returns were not positive in one country does not mean they were like that everywhere. In the 2000s, for instance, many commodity producing nations like South Africa, Norway and Australia delivered strong returns.

And while Japan has struggled in the past two decades, it was the second best performing developed equity market in the world over the four decades from the end of the Second World War as it rapidly industrialised.

Australia has lagged the world as a whole over the past half-decade, but it was one of the top performers in the first decade of the 21st century and has been the single best performing developed market (ahead of the US) over the last 115 years.

Keep in mind, also, that this chart does not take into account emerging markets which tend to perform differently to developed markets. In the past five years or so, emerging markets have struggled, but prior to that they enjoyed a purple patch.

Neither does the data show any unified pattern in where and when other premiums may show up, such as those associated with small company, low relative price and more profitable stocks.

So a properly diversified investor will tend to always hold some strongly performing markets and some poorly performing. This means that while they are unlikely to have the best performing portfolio, neither will they have the worst.

While that might not sound particularly exciting, there's a payoff if the greater reliability and smoother ride offered by diversification keeps them in their seats and ensures they receive the premiums when they do appear.

Hallelujah to that.

Do not act on this information alone! Individuals should seek independent financial advice before taking any action.

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