



Bonds outperform stocks over 30 years

A look at what fueled bonds' impressive run, 1B ▶ 2011 stock mutual funds report, best and worst, 1-3B

Bonds outperform stocks over 30 years: How did that happen?

By Matt Krantz
USA TODAY

Don't call bonds boring anymore.

Despite a reputation for being a slow-growing alternative to stocks for the risk-averse, bonds just passed stocks' long-term performance over the past 30 years.

The fact bonds have topped stocks over such a long period shakes up preconceived notions and further insults stock investors, who have endured historic volatility as they got lower returns.

"No one thought the tortoise could catch up, and it just did," says Ken Winans of Winans International.

Given the rally in bonds in 2011, it might not be surprising that the Ibbotson Associates SBBI bonds index, a broad bond measure, returned 28% last year, crushing the 2.1% return of the Standard & Poor's 500 including dividends. The bond index also topped stocks for the past 10 and 20 years.

What's more surprising, though, since it contradicts the widespread belief that stocks beat bonds, is that the Ibbotson Associates SBBI bond index has returned 11.03% a year on average over the past 30 years, edging out the 10.98% return of stocks.

Bonds' impressive run is being powered by several factors, including:

▶ **Distrust of the stock market's future.**

An entire class of investors is rattled by a dismal decade for stocks, including double-digit losses in four separate years since 2000,



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says Bill Larkin of Cabot Money Management. "People are looking at the (stock market) and seeing the casino component," he says. "They've taken big hits."

▶ **Search for investment income.** Aging Americans nearing or in retirement are deciding they crave steady income and don't have the stomach for stocks' higher volatility, Winans says.

▶ **Historic declines in interest rates and inflation.** The continual movement down in interest rates and inflation the past 30 years has been a boon for bonds, which rise in price as interest rates fall, says Charles Crane of Douglass Winthrop Advisors.

It would be a mistake to assume that bonds' strong run over the 30 years is destined to repeat, says Mark Hebner of Index Funds Advisors. Bonds have had stock-beating periods before, but stocks, over the very long term, still have beaten bonds, he says.

Looming risks also threaten the bond market, Larkin says. Moves by central governments for the past few years to hold interest rates down will eventually end, he says. If inflation creeps up, that, too, could put an end to bonds' run, Crane says.

When bonds are beating stocks for this long, Larkin says, "the first thing it tells you is you're probably at the most expensive bond market in our lifetime."