Risk-adjusted Investments for the Next Decade

By www.ProfitableInvestingTips.com

Interest rates are edging up. For the time being, stocks are staying ahead of bonds in the investment war. Historically, stocks earn 3.3% more than bonds over time. However, investors have gotten used to a much better ROI in the stock market over the last decade. We are looking at risk-adjusted investments for the next decade as interest rates go up and the stock market adjusts. Many investors have chosen to invest by buying ETFs that track the S&P 500. This puts them at risk in a stock market that will perform differently over the next decade.

Stock Market Returns Looking Back

When the stock market is roaring upward like it did in the last decade or if plunging downward like in 2009, many investors forget that returns over the long term are predictable. With exceptionally low interest rates, the stock market has done very well from 2010 through 2020 even with the Covid-19 pandemic. The S&P 500 has returned as much as 32% in a single year.

However, since the inception of the S&P 500 in 1957, returns have averaged 8% according to *Investopedia*. However, that average return since the S&P 500 went to 500 stocks includes lots of ups and downs.

The point for investors is not to get lulled into a sense of complacency because of the uniquely high stock market returns of the last decade during with interest rates have been extremely low.

Stock Market Returns Going Forward

Market Watch published a useful article about the next decade for stocks.

> *Though the U.S. stock market may win its current battle with the bond market, it could lose the war. Based on a simple regression model built on the historical relationship between stocks, bonds, interest rates, and inflation, investors can expect stocks to perform about 3.3 percentage points better than bonds annually over the coming decade. But that doesn't mean equities will produce a return that is anything close to their historical average.*

When the dot com bubble was ready to burst, the story was that investing had changed and that the market would go up forever. When the bubble burst, S&P 500 returns fell to negative 21% for a couple of years. That would be a real shock today for folks who have gotten used to making 31% and 18% in 2019 and 2020.

The risks going forward are these. Lots of zombie companies accustomed to low interest rates will go out of business. Their stocks will be worthless and their creditors will be holding worthless slips of paper. The market as a whole will correct downwards and then proceed at a slower pace than during the last decade. But, does this apply to all stocks?

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While travel and hospitality stocks took a hit during 2020, tech giants flourished as business continued with people working from home. Bank of America bought 30,000 laptops with all of the necessary security software for home-based workers. Multiply this by companies across the country and you have Apple, Microsoft and the rest doing well despite the economy doing its worst since the Great Depression. Amazon prospered and hired lots of workers while brick and mortar stores went out of business.

We have written about adapting your investments to the Biden agenda and push to revamp American infrastructure. The "low hanging fruit" we mentioned in our most-recent infrastructure article have to do with companies that provide aggregate, steel, and equipment rentals, all of which will prosper when American rebuilds its roads, bridges, ports, mass transit, and airports. But, a huge concern today is America's dependence on international supply chains for materials critical to our economy and defense. As such, we expect to see the high tech sector continue to prosper as the USA seeks to reassert its technological dominance.

The average S&P 500 ROI will probably fall as interest rates go up but individual S&P sectors and selected individual stocks will be excellent risk-adjusted investments for the next decade.

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