faith . discipline . patience

To say that stocks, historically, have returned approximately 10% per year, bonds 5.5%, and cash 3.4% is really just telling half the story.

In that same half-story, if you invest $100,000 for ten years stocks would grow to $259,000 which I'd grade A+. Bonds would grow to $170,000 – let's give it a solid B. Finally, cash ends up at almost $140,000, a C+.

The other half of the story? Taxes and inflation.

According to Morningstar the same historic figures become 5.1% for stocks, .6% for bonds, and negative .8% for cash. This is what makes it hard for me to argue against stocks for the long run.

I know percentages don't quite grab the imagination but dollars might.

So, here, then, is the full story: investing the same $100,000, over the next ten years stocks would be worth $164,000, bonds would crawl their way to $106,000, and that safe cash pile drifts backwards to $92,000.

Suddenly, my grades become B, C-, and F, respectively.

To reiterate, these grades apply only to long-term investing like ten years or longer. For near-term investing needs fixed income like bonds and cash may be excellent choices.

Some critics will point out that high current stock valuations and low interest rates make it unlikely we'll see average returns in the intermediate future. Well, they might be right, and they might be wrong. Still, it really doesn't alter the choice between stocks, bonds, and cash.

They're just telling us to lower our expectations.

Either way, for long-term investing, once you allow for taxes and inflation history strongly favors stocks over bonds and cash.

In the end it's not what you make that matters but what you keep.

Good luck.

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Stocks are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities.

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