

## How profitable are public stocks?

### What is the purpose of this article?

This article enables fact-based discussion regarding the profitability of public stocks. The audience for this article includes investors, fund managers, and public company leaders.

This article does not provide tax, legal or financial advice.

You must do your own research and fact-based analysis using current and relevant information.

### What are the critical learnings in this article?

1. The majority of US public stocks from Dec 1925 to Dec 2023 had negative returns.
2. The best performing 4% of US public stocks from 1926 to 2016 provided the entire stock market gains which exceeded one-month Treasury Bills.
3. S&P 500 outperformance relative to S&P 600 small cap and Russell 2000 has been increasing over time.
4. Most U.S. large cap funds have underperformed the S&P 500 for the past 15 years.
5. Most U.S. mid-cap funds have underperformed the S&P mid-cap 400 for the past 15 years.
6. Most U.S. small-cap funds have underperformed the S&P small-cap 600 for the past 15 years.
7. It appears to be close to impossible to predict the future performance of equity funds by looking at past performance.

### Do US public stocks provide better returns than US treasury bills?

Historically, most US public stocks have underperformed US one-month Treasury Bills. 4% of US stocks provided the entire stock market gains which exceeded one-month Treasury Bills.

- 1) The majority of US public stocks from 1926 to 2016 have lifetime buy-and-hold returns less than one-month US Treasury Bills. The best performing 4% of US public stocks provided the entire stock market gains which exceeded one-month Treasury Bills. <sup>1</sup>
- 2) The majority of US public stocks from Dec 1925 to Dec 2023 had negative returns. The highest compound return for any stock listed for at least 20 years, was Nvidia at 33.38% per year. <sup>2</sup>

### How have the major US stock indices performed over the past 20 years? <sup>3</sup>

S&P 500 outperformance relative to S&P 600 small cap and Russell 2000 has been increasing over time.

Index	2024 Return	5-Year CAGR (2019-2024)	10-Year CAGR (2014- 2024)	15-Year CAGR (2009-2024)	20-Year CAGR (2004-2024)
S&P 500	25.0%	17.19%	14.16%	15.02%	9.94%
Nasdaq Composite	29.6%	21.68%	17.58%	18.06%	12.87%
S&P 600 SmallCap	8.7%	11.21%	10.33%	N/A*	N/A*
Russell 2000	11.5%	10.82%	8.90%	10.74%	8.21%

**What percentage of U.S. large-cap equity funds underperform the S&P 500? <sup>4</sup>**

Most U.S. large cap funds have underperformed the S&P 500 for the past 15 years.

Fund Category	1-Year Underperformance	5-Year Underperformance	10-Year Underperformance	15-Year Underperformance
All Large-Cap Funds	64.91%	86.53%	91.36%	93.36%
Large-Cap Core Funds	59.48%	80.82%	88.07%	91.67%
Large-Cap Growth Funds	57.65%	89.29%	94.62%	95.21%

**What percentage of U.S. mid-cap equity funds underperform the S&P mid-cap 400? <sup>5</sup>**

Most U.S. mid-cap funds have underperformed the S&P mid-cap 400 for the past 15 years.

Fund Category	1-Year Underperformance	5-Year Underperformance	10-Year Underperformance	15-Year Underperformance
All Mid-Cap Funds	62.06%	82.99%	88.70%	92.86%
Mid-Cap Core Funds	64.57%	83.18%	90.00%	92.59%
Mid-Cap Growth Funds	62.26%	92.05%	93.23%	96.67%
Mid-Cap Value Funds	88.00%	80.00%	84.81%	89.47%

### What percentage of U.S. small-cap equity funds underperform the S&P small-cap 600? <sup>6</sup>

Most U.S. small-cap funds have underperformed the S&P small-cap 600 for the past 15 years.

Fund Category	1-Year Underperformance	5-Year Underperformance	10-Year Underperformance	15-Year Underperformance
All Small-Cap Funds	29.83%	77.92%	88.35%	94.46%
Small-Cap Core Funds	28.00%	76.71%	87.82%	93.97%
Small-Cap Growth Funds	35.19%	86.96%	95.53%	97.58%
Small-Cap Value Funds	94.23%	68.00%	78.33%	90.57%

### Can you predict the future performance of an equity fund manager by looking at past performance? <sup>7</sup>

It appears to be close to impossible to predict the future performance of equity funds by looking at past performance.

- 1) Only 2% of all US large-cap equity funds remained in the top half over 5-years.
- 2) None of the top-quartile large-cap or mid-cap funds from 2022 remained in the top quartile for the next two years. This appears to be worse than randomly picking funds.

### What are your next steps – as an investor?

- 1) Define the words/concepts you're using, in a glossary. I've seen major confusion when the same words mean different things to different people. Different data sources will have different definitions.
- 2) Document your future cash flow requirements, with scenarios.
- 3) State your overall investment thesis, with metrics for risk tolerance.
- 4) Define your asset allocation mix and criteria for changing the mix.
- 5) State your public stock investment thesis.
- 6) Do analysis to determine whether: you'll be buying individual stocks, buying ETFs, buying mutual funds, or a combination. Clearly describe your criteria for selling.

### Footnotes

<sup>1</sup> "Do stocks outperform Treasury Bills", May 2018, Hendrik Bessembinder, Arizona State University, Page 1  
[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2900447](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2900447)

<sup>2</sup> "Which U.S. stocks generated the highest long-term returns?", Nov 2024, Hendrik Bessembinder, Arizona State University, Page 1  
[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4897069](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4897069)

<sup>3</sup> Data is from a variety of sources.

<sup>4</sup> "S&P Dow Jones Indices SPIVA U.S. Year-End 2024 Report"  
<https://www.spglobal.com/spdji/en/documents/spiva/spiva-us-year-end-2024.pdf>

<sup>5</sup> “S&P Dow Jones Indices SPIVA U.S. Year-End 2024 Report”  
<https://www.spglobal.com/spdji/en/documents/spiva/spiva-us-year-end-2024.pdf>

<sup>6</sup> “S&P Dow Jones Indices SPIVA U.S. Year-End 2024 Report”  
<https://www.spglobal.com/spdji/en/documents/spiva/spiva-us-year-end-2024.pdf>

<sup>7</sup> “U.S. Persistence Scorecard Year-End 2024” S&P Dow Jones SPIVA  
<https://www.spglobal.com/spdji/en/documents/spiva/persistence-scorecard-year-end-2024.pdf>

### **What further reading should you do?**

How profitable is angel investing? Koor and Associates

<https://koorandassociates.org/selling-a-company-or-raising-capital/how-profitable-is-angel-investing/>

How profitable are search funds? Koor and Associates

<https://koorandassociates.org/selling-a-company-or-raising-capital/how-profitable-are-search-funds/>

How profitable is venture capital? Koor and Associates

<https://koorandassociates.org/selling-a-company-or-raising-capital/how-profitable-is-venture-capital/>

How profitable is private equity? Koor & Associates

<https://koorandassociates.org/selling-a-company-or-raising-capital/how-profitable-is-private-equity/>

Your company will fail. Koor and Associates

<https://koorandassociates.org/avoiding-business-failure/your-company-will-fail-v1/>

What are the core components of talent? Koor and Associates

<https://koorandassociates.org/creating-business-value/core-components-of-talent/>