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How has the stock market performed over the long-term?

There is a well-known saying that history does not repeat itself but it does rhyme, meaning that exactly same thing does not happen over and over again, but it does have a recurring theme. Recognizing this, we have examined the past performance of stocks and bank deposits to provide some insight to long-term investors. In our analysis, we have used 16 year period from July 2001 to June 2017, divided into 12 sub-periods of 5-years. We have then analyzed performance over these 5-year period to give insight to investors who have a 5-year or longer investment horizon. The first 5-year sub-period comprise the period from July 2001 to June 2006, the second 5-year sub-period from July 2002 to June 2007, and so on and so forth. This period includes some of the most distressing events in the country's history such as September 2001 terrorist attack in the US leading to the war in neighboring Afghanistan and subsequent rise in terrorist activities inside Pakistan; October 2005 earth quake causing death toll of 90,000; General Musharraf's attempt to dismiss Chief Justice triggering mass protests, imposition of emergency and assassination of Benazir Bhutto in 2007; one of the worst economic crises that Pakistan faced in 2008; and worst flooding in 2010 causing tremendous financial loss.

The Table below summarizes returns on stocks and bank deposits over the past 16 years. The returns on equities have averaged around 25 percent per year over the said period. This means that PKR 100 invested in the stock market in June 2001 would have grown to PKR 3,408 in June 2017. The same PKR 100 invested in Bank deposits 16 years ago at an average return of 5.7% per annum would have grown to PKR 243. Out of the 12, 5-year sub-periods, equities have outperformed bank deposits during 9 sub-periods. There was not a single period where stock market investors experienced negative returns. There is variability of returns in stocks over the sub-periods: the best 5-year period was 2002-2007 with cumulative return of 678%, and the worst period was 2007-2012 with cumulative return of mere 0.2%. Year 2002-3 was the best year for equity investors with a staggering return of 92%, while year 2008-9 was the worst year eroding 42% of the investment value. Over a long-term, stocks exhibited remarkable turnaround of returns after a sharp fall, which is commonly called mean reversion. Well managed equity funds generally perform better than the market. To put things into perspective, since its inception on January 19, 2007 till November 30, 2017, NAFA Stock Fund has generated 410% return versus 276% return by the stock market. This out-performance of the Fund is net of management fee, and all other expenses.

The superiority of performance of equities versus fixed-income over the long run is the global norm. Political or economic crises can throw stocks off their long-term path, but in-built resilience of the market, and underlying earnings growth of listed companies driven by economic expansion, enables them to regain their long-term trend. Perhaps, that is why stock returns surpass political, economic, and geopolitical shifts over time. The above analysis offers a key lesson that superior performance of stocks hold up over time, but any individual year can result in a widely varying performance. Out of the last 16 years, stock market investors enjoyed positive returns in 14 years, and sustained losses in 2 years. Another lesson is that while market timing sometimes can appear to be beneficial, but it comes with the risk of missing the rapid ride in the market. Therefore, we advise investors to focus on long-term investing rather than trying to time the market.

Historical Performance of Stock Market and Bank Deposit July 2001 to June 2017

5 Year Periods	5 Year Annualized Return		Value of Rs.100 at the end of 5-year period	
	KSE-100	Bank Deposit	KSE-100	Bank Deposit
2001-2006	48.8%	4.7%	731	126
2002-2007	50.7%	4.2%	778	123
2003-2008	29.2%	4.2%	361	123
2004-2009	6.3%	5.1%	136	128
2005-2010	5.5%	6.1%	130	134
2006-2011	4.6%	6.6%	125	138
2007-2012	0.0%	7.1%	100	141
2008-2013	11.3%	7.3%	171	143
2009-2014	32.8%	6.5%	414	137
2010-2015	28.7%	6.4%	354	137
2011-2016	24.7%	6.1%	302	134
2012-2017	27.5%	5.5%	337	130
2001-2017	**24.70%**	**5.70%**	**3,408**	**243**

The recent sharp correction in equities has many investors asking whether the stock market is heading for a crash. We believe that domestic political uncertainty and concerns on the economy emanating from deteriorating Balance of Payment (BoP) position have largely been priced-in the current market valuations. Given the Price-to-Earnings (P/E) multiples of 9, Pakistani stock market is at a deep discount to the regional market that are trading at P/E multiples of 16. We expect the stock market to deliver healthy returns over the next 12-months.