Updating My Favorite Performance Chart

The last couple of years I have updated an asset allocation quilt that I keep track of through the end of each calendar year. For some reason I never got around to updating through the end of 2015 and was asked by a handful of readers to do so. Here's the past 10 years' worth of returns for select asset classes:

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	10 Years
REITs 35.1%	Emerging Mkts 33.1%	Bonds 7.6%	Emerging Mkts 68.9%	REITs 28.3%	TIPS 13.3%	Emerging Mkts 19.1%	Small Cap 41.0%	REITs 30.1%	REITs 2.2%	Small Cap 8.4%
Emerging Mkts 31.4%	Comdty 14.9%	Cash 2.1%	Small Cap 41.6%	Small Cap 27.2%	REITs 8.5%	Int'l Stocks 18.8%	Mid Cap 33.1%	Large Cap 13.7%	Large Cap 1.3%	Mid Cap 7.9%
Int'l Stocks 25.9%	TIPS 11.9%	TIPS -0.5%	Mid Cap 37.6%	Mid Cap 26.3%	Bonds 7.7%	Mid Cap 17.8%	Large Cap 32.2%	Mid Cap 9.4%	Bonds 0.5%	REITs 7.4%
Small Cap 17.0%	Int'l Stocks 9.9%	Mid Cap -36.4%	REITs 29.6%	Emerging Mkts 16.5%	Large Cap 2.1%	REITs 17.5%	Int'l Stocks 21.4%	Bonds 6.0%	Cash 0.1%	Large Cap 7.2%
Large Cap 15.6%	Mid Cap 7.1%	Large Cap -36.6%	Int'l Stocks 26.9%	Comdty 16.2%	Small Cap 1.1%	Large Cap 15.8%	REITs 2.3%	TIPS 3.6%	Int'l Stocks -1.0%	Bonds 4.3%
Mid Cap 10.0%	Bonds 6.7%	REITs -37.1%	Large Cap 25.9%	Large Cap 14.8%	Cash 0.1%	Small Cap 15.7%	Cash 0.1%	Small Cap 3.0%	TIPS -1.8%	TIPS 3.8%
Cash 4.9%	Large Cap 5.5%	Comdty -37.4%	Comdty 20.1%	Int'l Stocks 8.2%	Mid Cap -2.1%	TIPS 6.4%	Bonds -2.0%	Cash 0.1%	Small Cap -1.8%	Int'l Stocks 2.8%
Bonds 3.9%	Cash 5.0%	Small Cap -37.6%	TIPS 8.9%	Bonds 6.4%	Int'l Stocks -12.3%	Bonds 3.8%	Emerging Mkts -3.7%	Emerging Mkts -3.9%	Mid Cap -2.5%	Emerging Mkts 2.8%
Comdty 2.1%	Small Cap 1.8%	Int'l Stocks -41.0%	Bonds 3.3%	TIPS 6.1%	Comdty -14.0%	Cash 0.1%	TIPS -8.5%	Int'l Stocks -6.2%	Emerging Mkts -16.2%	Cash 1.3%
TIPS 0.2%	REITs -16.5%	Emerging Mkts -48.9%	Cash 0.2%	Cash 0.1%	Emerging Mkts -18.8%	Comdty -2.1%	Comdty -11.1%	Comdty -18.6%	Comdty -28.2%	Comdty -7.7%

Funds: EEM, VGSIX, MDY, SLY, SPY, EFA, TIP, AGG, DJP, T-Bills

A few thoughts on my favorite performance chart:

- It's amazing what a couple of year's worth of performance can mean to long-term returns. Add a year here or take away a year there and the numbers can look completely different. Here was the ranking of these asset classes as of the end of 2013 (along with annual return numbers): emerging markets (+15%), mid caps (+13%), small caps (+13%), REITs (+11%), international stocks (+10%), large cap (+9%), TIPS (+5%), bonds (+5%), commodities (+3%) and cash (+2%). Things look quite different at year end 2015. This is why I always say the best way to win an argument about the markets is to change your start or end date.

- I've always been of the opinion that mid caps are some of the most under-owned stocks in terms of mutual funds and ETFs by investors, which could explain why they seem to have performed so well over the past 10-15 years. Large caps are covered heavily by Wall Street and everyone pays attention to small caps because they are something of a gauge of risk, but few people ever talk about mid caps. A quick look at the Reuters mutual fund screener shows 2,095 large cap funds, 1,734 small cap funds, but just 974 mid cap funds in the U.S. equity mutual fund universe.

- Commodities could set some sort of record in futility if they're down for the 6th year in a row in 2016. These are very volatile assets so I wouldn't be surprised by a face-ripper of a rally at some point, but it would be very difficult to figure out the why and the when on that one. Regardless, we seem to be in uncharted territory with the commodities downturn.

- Remember when cash equivalents used to pay interest? Can you imagine earning 5% on a money market or short-term treasury note these days like you could have in 2007? (See also What if Risk-Free Returns Slowly Go Away?)

- I was asked recently why it makes sense to invest in REITs when they basically give you equity-like returns with equity-like volatility. From eye-balling these returns alone you can see that REITs tend to march to their own drummer and aren't always highly correlated with U.S. stocks. This diversification benefit can be huge if investors are willing and able to take advantage over time. The correlation to the S&P 500 over the past 10 years was 0.70 while the correlation to bonds was -0.15.

- Higher volatility does not always lead to higher returns. Two of the three worst performing asset classes (emerging markets and commodities) had some of the highest volatility of all (33% and 19%, respectively). Uncorrelated returns sound great in a backtest, but aren't very fun in real-time. Investors who benefit from uncorrelated returns are those who are able to rebalance into that underperforming volatility. It's not an easy stance to take, but it tends to be a profitable one.

- Risk assets can be disappointing at times. Foreign stock markets have underperformed bonds over the past decade. The combination of the 2007-09 financial crisis, the 2011 European debt crisis and a rising dollar have made for a terrible time for investors with a global portfolio in the past decade. Some would have you believe that this is proof that you don't need to invest internationally to be successful. I would tend to think this will lead to some opportunities for future leadership abroad. We shall see...