THE WEALTH ADVISOR

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What Kind of Returns Should We Expect From Stocks?

Since 1926, the long-term average return of the stock market has been 10.4%. So it's not surprising that many people expect that kind of return every year.

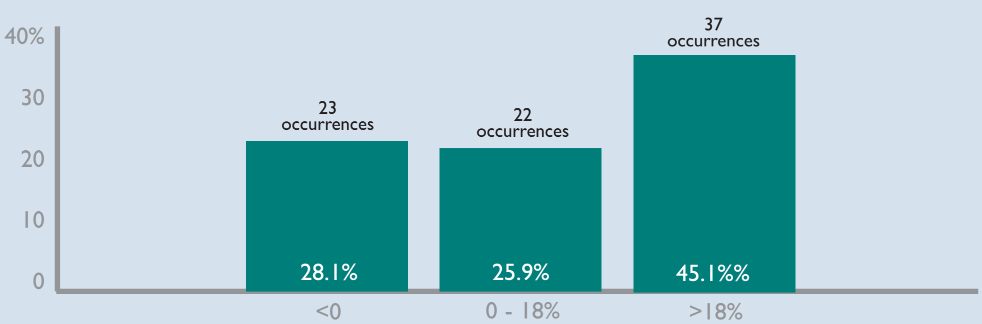
However, many investors fail to realize that the stock market is a market of extremes, dominated by years when returns exceed 18% and years when the market declines. The reality is, returns of 10–12% in any given calendar year are extremely rare.

Long-term returns of asset classes 1926 - 2007[1]	
Small company stocks	12.45%
Large company stocks	10.36%
High-quality corporate bonds	5.85%
Intermediate government bonds	5.47%
Inflation, as measured by the CPI	3.05%

A Market of Extremes

Interestingly enough, calendar year returns of 8–12% have occurred only five times in the 82 years since 1926. Over that time, there were 37 instances when the calendar year total return for stocks exceeded 18%, and it has been negative 23 times. The good news is that for every two years that the market has lost ground, there have been three years with returns of 18% or more — a 3:2 ratio of great years to lousy ones!

Calendar-year stock market returns from 1926 - 2007[2]



Source: John Hancock: A Special Focus on Volitility and the Stock Market.

1 Source: Ibbotson Associates. Small company stocks–represented by the fifth capitalization quintile of stocks on the NYSE for 1926–1981 and the performance of the Dimensional Fund Advisors (DFA) Small Company Fund there after; Large company stocks–Standard & Poor's 500; Corporate Bonds–Salomon Brothers Long-Term High-Grade Corporate Bond Index; Long-term government bonds–20-Year U.S. Government Bond; Inflation–Consumer Price Index. Small company stocks are generally more volatile than large company stocks. Investors should consider their tolerance for such volatility. Government bonds are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and fixed principal value. It is not possible to invest directly in an index. Past performance does not guarantee future results.

2 Source: Ibbotson. Based on average annual percentage returns for large-capitalization stocks over 82 one-year periods from 1926–2007, assuming reinvestment of dividends and capital gains. Large-capitalization stocks are represented by the S&P 500. The S&P 500 is an unmanaged index commonly used to measure stock market performance. It is not possible to invest directly in an index. This chart does not illustrate the performance of any John Hancock fund.

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Inside This Issue

THE PROSPERITY CONSULTING GROUP, LLC
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Why Should I Still Invest in Stocks?

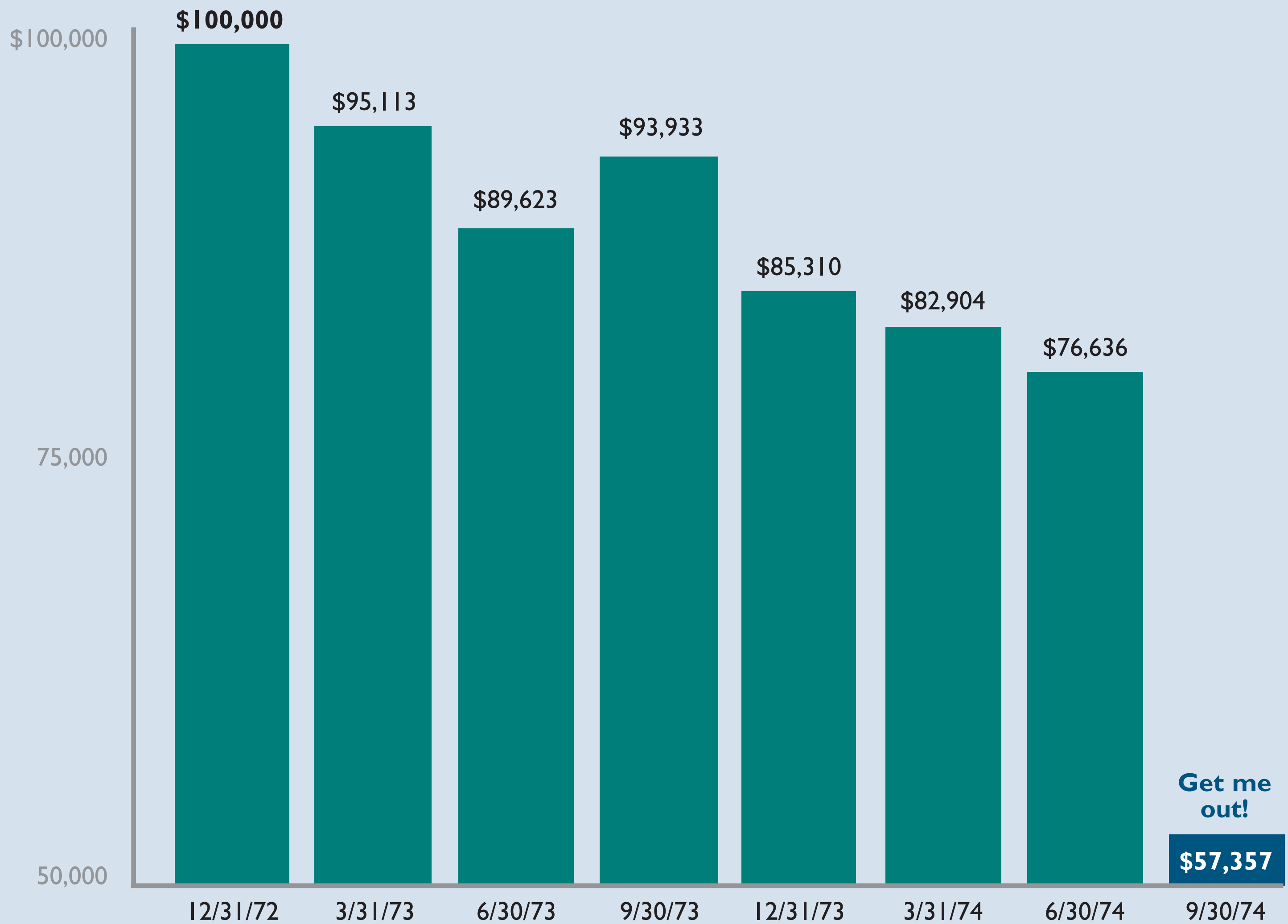
> While rationally everyone knows that the market won't go up forever – irrationally, we're surprised when it goes down.

It's a good question. One answer has to do with how optimistic you feel about the future — and about the world and its opportunities for growth and development.

Do you really think we've peaked? More importantly, consider what would have happened if investors in past bear markets bailed out after a significant decline and moved their money to a "safe" interest-bearing security.

We'll use the tough bear market of the 1970s to illustrate our example. It was a very gloomy period in our nation's history, and some people lost a lot of money. You couldn't really blame investors for throwing their hands up and screaming "Get me out!"

Hypothetical Investment in the S&P 500 During the Bear Market 1972–1974[3]



We'll assume that the investor from the previous chart now has $57,357 to invest. While getting out of the stock market may mean avoiding more down days, it also means missing out on the up days when the market bounces back. Investors who stayed invested even after a long, slow market decline would have done much better in the long run.

Source: John Hancock: A Special Focus on Volitility and the Stock Market.
3 Source: Lipper, Inc. The S&P 500 is an unmanaged index which includes 500 widely traded stocks. It is not possible to invest directly in an index. Past performance is no guarantee of future results. This illustration does not reflect the performance of any John Hancock fund.

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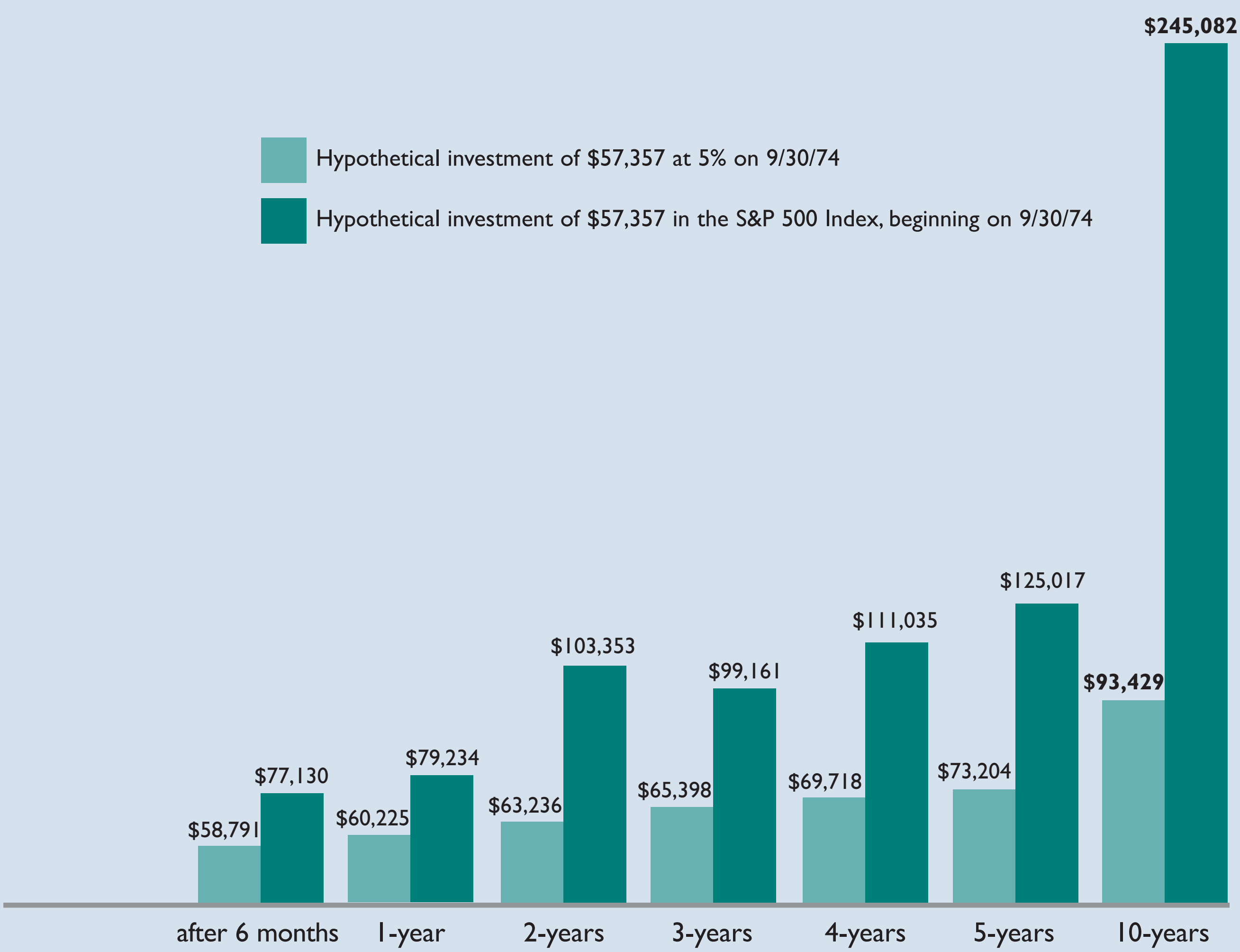
Staying Invested vs. Getting Out — It's Important to Maintain a Long-Term Focus[3]



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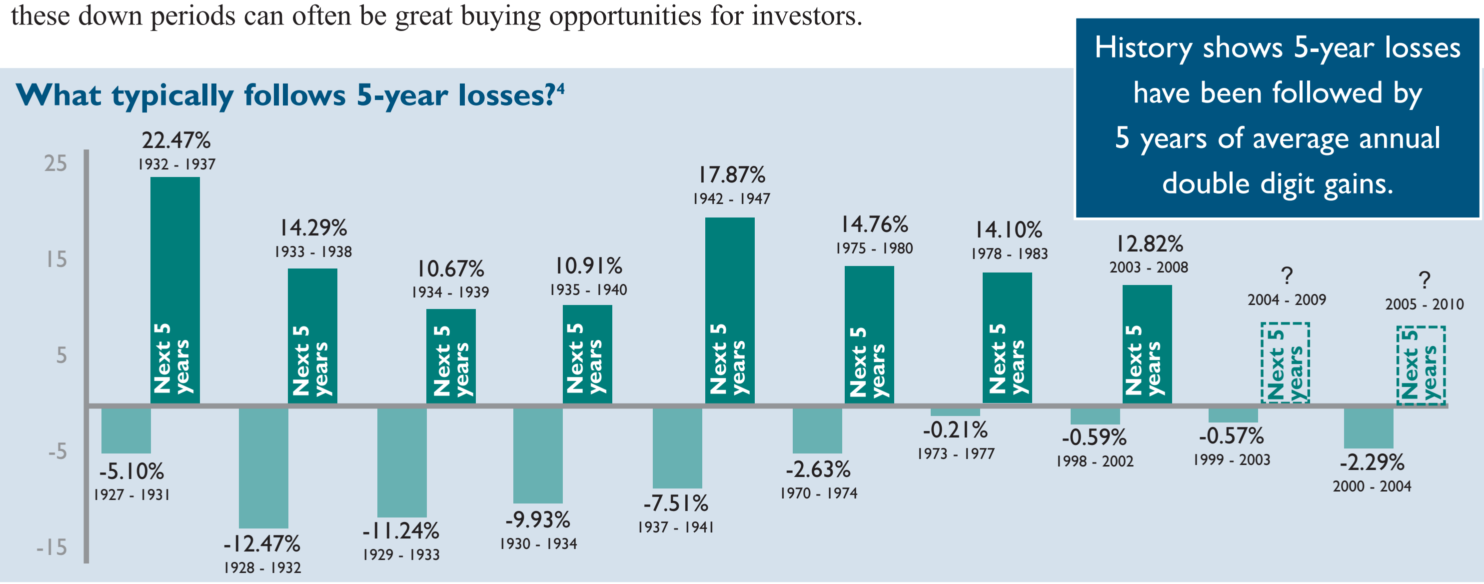
Why Should I Be Optimistic About the Future?

When the market turns negative, it's difficult to remain optimistic, especially if returns have been negative for several years in a row. The phenomenon of a five-calendar-year period with negative returns for the S&P 500 Index has only occurred ten times since 1926. Five of those periods occurred around the stock market crash of 1929 and the Great Depression. Two coincided with the 1973–1974 bear market, and the others were during the most recent bear market. In each case, the period following a five-year period of negative returns has produced exceptional results. Although past performance is no guarantee of future results, these down periods can often be great buying opportunities for investors.



Source: John Hancock: A Special Focus on Volitility and the Stock Market.

4 Source: Bloomberg and Ibbotson. Losses are based on large-capitalization U.S. stocks, as measured by Ibbotson Associates based on annualized performance of the S&P 500 through the five calendar-year periods ending on the dates shown. Returns assume reinvestment of all dividends and capital gains. Past performance is not a guarantee of future results. The S&P 500 Index is unmanaged and cannot be invested in directly.