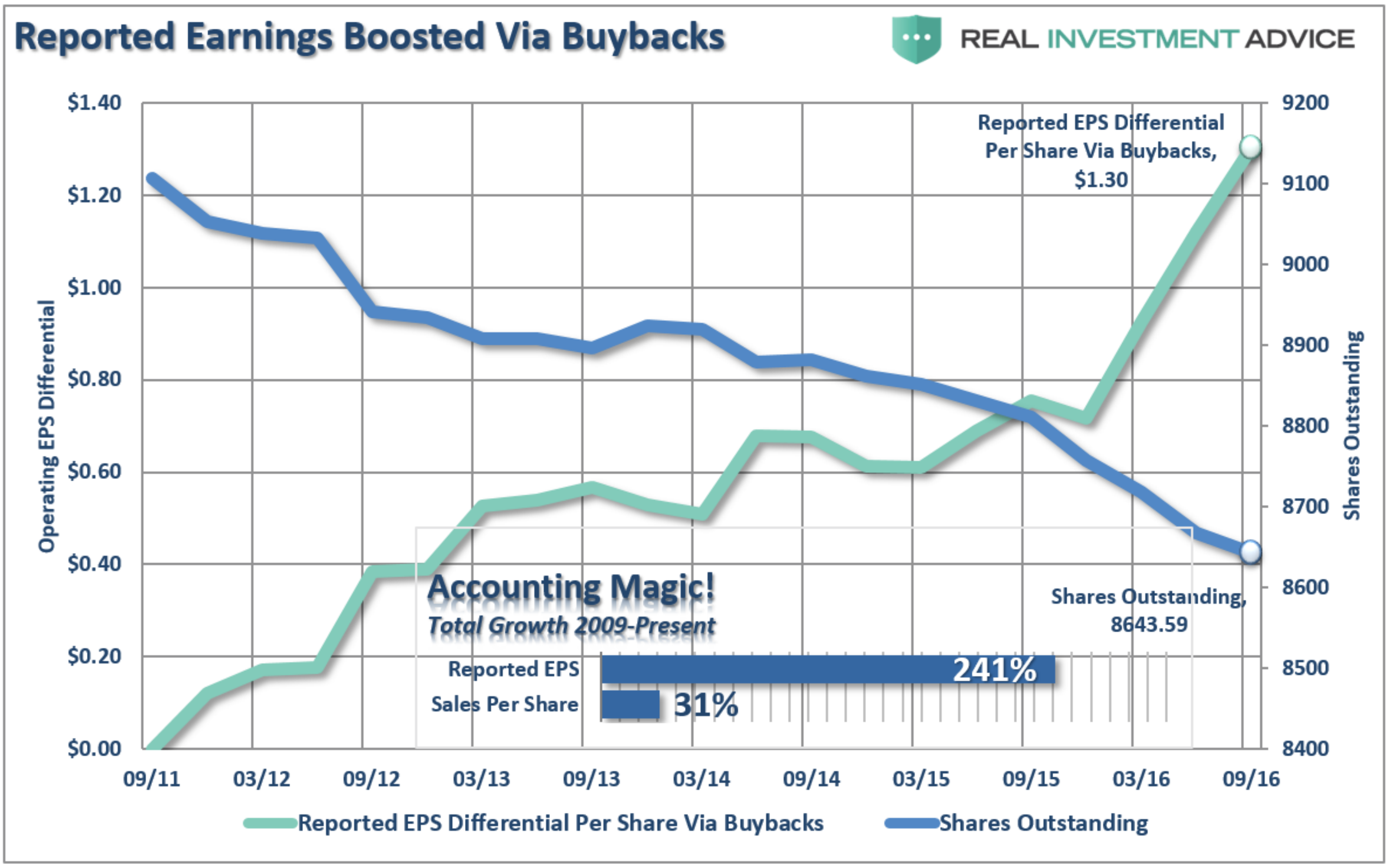
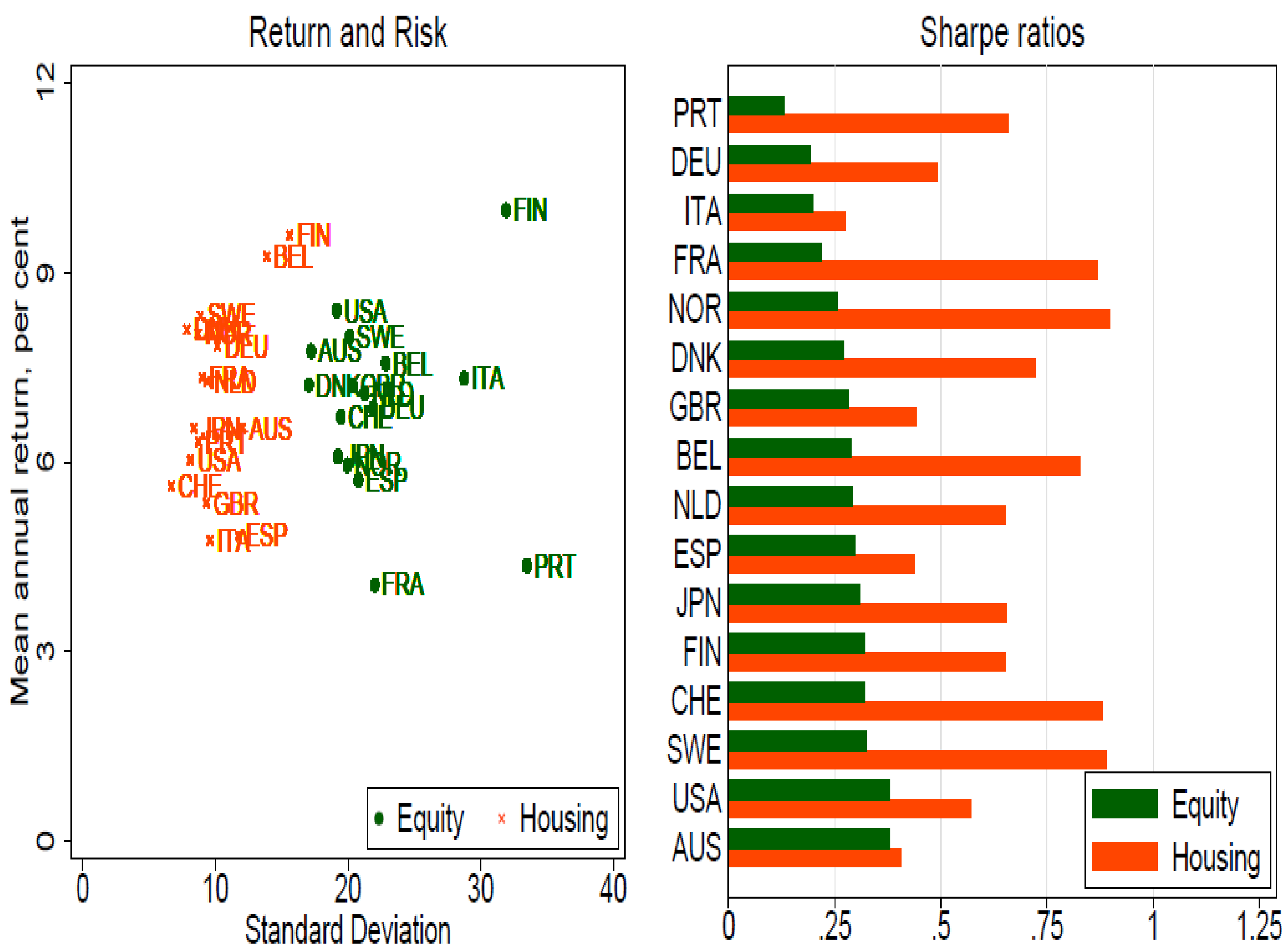
An adage overused by financial professionals is *?investing is all about the long term.?* A team of academics took it seriously and created for the first time, an extensive annual database of total rates of returns on 4 major asset classes for 16 advanced economies. Housing, equity, bonds and bills compromise over half of all investable assets in advanced economies today, according to the study. A monumental task to say the least, the authors of the study ?The Rate of Return on Everything, 1870-2015,? Oscar Jorda, Katharina Knoll, Dmitry Kuvshinov, Moritz Schularick and Alan M. Taylor, include total returns for residential housing, an often ignored but major component of household wealth. Empirical results add color to how the growth rate of an economy has paled and conflicted with the accumulation of wealth and rate of return on capital as possible drivers of wealth and income inequality. In other words, a robust economic growth rate benefits labor whose increasing wages spur aggregate demand for goods and services. The rate of return on risk assets benefits those who generate wealth through ownership of capital assets. At times like we?ve experienced through the decade post-Great Recession, economic growth has progressed at below-average rates. Global central bankers utilizing unprecedented monetary policy methods, have pushed risk asset prices three-standard deviations above historic norms and extremely out of proportion to realized economic growth. However, over the past 150 years, the real return on wealth has substantially exceeded real GDP growth in 13 decades and has only been below GDP growth in the two decades corresponding to two world wars. Currently, monetary policy and cheap money have motivated corporations to take on debt and buy back common shares thus driving a greater wedge between the wealth of capital and financial stagnation of labor. Facts this paper outlines and what we?ve been writing about at RIA.



Well Rich, we know all this from reading the Real Investment Advice blog. Why should I care? Here are several observations an investor should take away. **Low returns on safe assets are more common than you think**. Safe returns over the last century have been low on average, falling in the 1-3% range. What?s surprising is not only are returns low for most of the period, but volatility is high. Not a good long-term combination for investors. Each of the world wars was a time of very low real (adjusted for inflation), safe rates; well below zero. Low returns served a purpose. They allowed for rapid debt reduction post-WW2. Today, low rates allow global governments to service their overwhelming debt obligations. Safe assets such as Treasury Bills as referenced in the study, from an investor perspective, may be a sleeve in an asset allocation used for ongoing cash requirements and or utilized to protect against portfolio losses through bear market cycles for high risk assets, like stocks. Safe assets as validated in the research, provide inadequate protection against inflation. Not a surprise. **Risk premiums (risky rates minus safe rates), don?t necessarily co-move with business cycles.** Obviously, we?ve experienced a similar outcome over the last decade where U.S. economic growth has been mired in a below-average malaise, yet stock market returns have more than doubled. Through most peacetime periods, the risk premium has been stable at roughly 4%-5% with bouts of extreme volatility and strong mean reversion. Equity returns have experienced wealth destroying boom-bust cycles with real returns as high as 16% and as low as -4% over the course of decades. Equity prices are subject to large and prolonged swings which makes complacency and a focus on recent, robust stock returns a potential lethal blow to wealth creation and long-term financial security. Most important at this juncture is to focus on risk management. For example, as of December 29, the 13-week T-Bill (or risk-free) rate was 1.39%, the S&P 500 Index closed the year up 19% which far exceeds the average risk premium calculation and more than triple Wall Street return projections. Keep in mind that risk premiums were or at near their highest level in almost every country in the study largely due to low returns on safe assets. Sound familiar? Unfortunately, there?s no way to predict when mean reversion hits and becomes reality. Therefore, portfolio risk management guidelines should be created and diligently followed.• Need a jumpstart for the new year? Download [RIA?s Financial Survival Guides](#) ? ?*The Ultimate Chart Guides for An Investment Life,?* and ?*Investment & Planning Rules for Financial Success.?* **Global diversification isn?t what it used to be unless you seek to purchase rental real estate in Norway.**•• We?ve been beating this drum repeatedly at RIA. Equity diversification is falsely touted as a ?free lunch? and a viable method of portfolio protection by the financial services industry. The industry?s motivation is to keep investors fully allocated to stocks, regardless of the cycle. The study outlines how equity returns have become highly correlated across countries. Housing is a different story. Although aggregate returns on equities exceed those on housing, equities do not outperform housing, especially when rental income is considered, in risk-adjusted terms. Surprisingly, housing has been as good a long-run investment as equities. Long term, housing outperformed equities in 6 countries, equities outperformed housing in 5. Returns on the two assets were about the same in the remaining 5 countries. [Sharpe ratios](#) (returns in excess of risk-free rates), for housing in all 16 countries is more than double those of equities. Naturally, transaction costs, taxes as well as liquidity add variability to these results. Leverage increases both risk and return for equities and residential real estate.



Cross-country residential real estate provides the lowest correlations and greatest overall diversification benefits with returns in housing markets following a smoother path than equities. Think you?re diversified when invested in publicly-traded real estate investment trusts? Think again. REIT returns are more volatile than ownership of unlevered residential real estate. REIT returns are subject to the similar gyrations of the overall stock market. Residential rental real estate isn?t for everyone. However, for investors who are up for the task, review RIA?s [Guidelines for Rental Property Diversification.](#) The volume of work at the least, should spark discussion among academics, economics and investors who seek to gain an understanding of not only how asset class returns experience boom and bust cycles and periods of tight correlations, but how ironically, the safest of asset classes may be very risky at times. For savers and investors, the research provides long-term perspective of risk premiums that risky assets bear when compared to safe assets like government bonds and short-term bills. Last, the research clearly showcases how the persistent, widening gap between economic growth and the appreciation of capital assets have also coincided with increases in wealth inequality across the majority of countries studied. The authors? findings shed additional light on the ongoing debate about the underlying causes of the declining labor share of income both in the U.S. and globally since the 1970s.