

# The Wealth Compass

## Navigating Your Financial Journey

January 2025



### Navigating Market Cycles: A Look Back at Two Decades of Asset Class Performance

In this newsletter, we'll take a look back at two decades of asset class performance, from 2000 to 2024. This historical perspective serves as a powerful reminder of the dynamic nature of markets and the importance of diversification.

#### A Decade of Volatility (2000-2009)

The first decade of the 21st century was marked by significant volatility. We witnessed the dot-com bubble burst, the 9/11 attacks, and the global financial crisis. This period highlights the following:

- **No Single Winner:** No single asset class consistently outperformed throughout the decade. This underscores the importance of diversification to capture returns across market cycles.
- **Cyclical Performance:** We observed cyclical performance across asset classes. Commodities and emerging markets experienced periods of strong growth followed by sharp declines.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Years
Comdty 49.8%	REITs 15.5%	Comdty 32.1%	EM 56.3%	REITs 30.4%	EM 32.6%	REITs 35.2%	EM 33.3%	Bonds 7.9%	EM 68.9%	REITs 11.1%
REITs 25.9%	Bonds 8.4%	TIPS 16.6%	Int'l Stocks 39.8%	EM 24.6%	Comdty 25.6%	EM 31.2%	Comdty 32.7%	Cash 1.6%	Small Cap 41.6%	EM 9.5%
Mid Cap 17.3%	TIPS 7.9%	Bonds 10.3%	Small Cap 38.8%	Small Cap 22.6%	Int'l Stocks 13.3%	Int'l Stocks 25.8%	EW 8.5%	TIPS -0.5%	Mid Cap 37.6%	Mid Cap 9.4%
TIPS 13.2%	Small Cap 6.5%	REITs 5.2%	REITs 38.5%	Int'l Stocks 19.0%	Mid Cap 12.5%	Large Cap 15.9%	Mid Cap 7.2%	EW -26.6%	REITs 30.1%	TIPS 7.6%
Small Cap 11.8%	Cash 3.3%	Cash 1.6%	Mid Cap 35.3%	Comdty 17.3%	EW 11.6%	Small Cap 15.1%	Bonds 6.6%	Mid Cap -36.5%	Int'l Stocks 27.0%	Comdty 7.3%
Bonds 11.6%	Mid Cap -0.9%	EW -0.6%	Large Cap 28.2%	Mid Cap 15.9%	REITs 11.6%	EW 12.7%	Large Cap 5.2%	Large Cap -36.8%	EW 26.4%	EW 6.9%
EW 8.1%	EM -2.4%	EM -6.0%	EW 27.1%	EW 15.4%	Small Cap 7.7%	Mid Cap 10.0%	Cash 4.4%	REITs -37.0%	Large Cap 26.4%	Small Cap 6.6%
Cash 5.9%	EW -2.7%	Mid Cap -14.5%	Comdty 20.7%	Large Cap 10.7%	Large Cap 4.8%	Cash 4.9%	TIPS 2.1%	Comdty -37.4%	Comdty 20.1%	Bonds 6.1%
Large Cap -9.7%	Large Cap -11.8%	Small Cap 14.6%	TIPS 8.4%	TIPS 10.3%	TIPS 4.1%	TIPS 3.9%	Int'l Stocks 0.7%	Small Cap -37.6%	TIPS 8.9%	Cash 2.8%
Int'l Stocks -14.0%	Int'l Stocks -21.2%	Int'l Stocks -15.4%	Bonds 4.1%	Bonds 3.9%	Cash 3.3%	Bonds 3.9%	Small Cap 0.3%	Int'l Stocks -41.0%	Bonds 3.0%	Int'l Stocks 0.2%
EM -30.6%	Comdty -31.9%	Large Cap -21.6%	Cash 1.0%	Cash 1.4%	Bonds 2.1%	Comdty -15.1%	REITs -16.3%	EM -48.9%	Cash 0.3%	Large Cap -1.0%

Funds: EEM, VNQ, MDY, SPSM SPY, EFA, TIP, AGG, DJP, BIL  
Index data applied where necessary

### The Danger of Recency Bias

Who remembers commodities, emerging markets and real estate dominating almost every year of the first decade of this century?

The strong performance of large-cap equities in recent years could lead to recency bias, where investors overestimate the likelihood of similar returns in the future. It's crucial to remember that past performance is not indicative of future results.

### A Decade of Large-Cap Dominance (2014-2024)

The second decade saw a period of strong performance for large-cap equities, particularly in the US. However, we also witnessed significant volatility in 2022, reminding us that even seemingly stable asset classes can experience periods of turbulence.

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	10 Years
REITs 2.4%	Small Cap 26.6%	EM 37.3%	Cash 1.7%	Large Cap 31.2%	Large Cap 18.3%	REITs 40.5%	Comdty 17.5%	Large Cap 26.2%	Large Cap 24.9%	Large Cap 13.0%
Large Cap 1.3%	Mid Cap 20.5%	Int'l Stocks 25.1%	Bonds 0.1%	REITs 28.9%	EM 17.0%	Comdty 31.1%	Cash 1.4%	Int'l Stocks 18.4%	Mid Cap 13.6%	Mid Cap 9.4%
Bonds 0.5%	Comdty 12.9%	Large Cap 21.7%	TIPS -1.4%	Mid Cap 25.8%	Mid Cap 13.5%	Large Cap 28.8%	EW -11.5%	Mid Cap 16.1%	Small Cap 8.6%	Small Cap 8.9%
Cash -0.1%	Large Cap 12.0%	Mid Cap 15.9%	Large Cap -4.6%	Small Cap 22.6%	Small Cap 11.4%	Small Cap 26.8%	TIPS -12.2%	Small Cap 16.1%	EW 7.6%	EW 5.4%
Int'l Stocks -1.0%	EM 10.9%	Small Cap 13.1%	REITs -6.0%	Int'l Stocks 22.0%	TIPS 10.8%	Mid Cap 24.5%	Bonds -13.0%	REITs 11.8%	EM 6.5%	Int'l Stocks 5.2%
TIPS -1.8%	EW 10.0%	EW 12.6%	EW -7.2%	EM 18.2%	EW 7.8%	EW 16.3%	Mid Cap -13.3%	EW 10.2%	Comdty 5.6%	REITs 5.1%
Small Cap -1.8%	REITs 8.6%	REITs 4.9%	Small Cap -8.6%	EW 17.5%	Int'l Stocks 7.6%	Int'l Stocks 11.5%	Int'l Stocks -14.4%	EM 9.0%	Cash 5.2%	EM 2.9%
Mid Cap -2.5%	TIPS 4.7%	Bonds 3.6%	Mid Cap -11.3%	Bonds 8.5%	Bonds 7.5%	TIPS 5.7%	Small Cap -16.1%	Bonds 5.7%	REITs 4.8%	TIPS 2.1%
EW -4.7%	Bonds 2.4%	TIPS 2.9%	Comdty -13.1%	TIPS 8.4%	Cash 0.4%	Cash -0.1%	Large Cap -18.2%	Cash 4.9%	Int'l Stocks 3.5%	Cash 1.6%
EM -16.2%	Int'l Stocks 1.4%	Comdty 0.7%	Int'l Stocks -13.8%	Comdty 7.6%	Comdty -4.1%	Bonds -1.8%	EM -20.6%	TIPS 3.8%	TIPS 1.7%	Bonds 1.3%
Comdty -28.2%	Cash 0.1%	Cash 0.7%	EM -15.3%	Cash 2.0%	REITs -4.6%	EM -3.6%	REITs -26.2%	Comdty -9.9%	Bonds 1.3%	Comdty 0.7%

Funds: EEM, VNQ, MDY, SPSM SPY, EFA, TIP, AGG, DJP, BIL

### Key Takeaways for Investors

- **Diversification is Key:** Diversification across asset classes, sectors, and regions is essential to mitigate risk and capture returns across market cycles.
- **Long-Term Perspective:** Maintaining a long-term investment horizon is crucial to weather market fluctuations and achieve your financial goals.

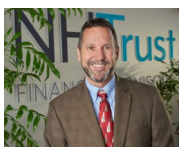
**Guard Against Recency Bias:** Avoid making investment decisions based solely on recent market trends.

We believe that a well-diversified portfolio, combined with a long-term investment approach, can help you navigate market cycles and achieve your financial objectives.

We are here to support you on your investment journey. Please feel free to reach out if you have any questions or would like to discuss your investment strategy in more detail.

#### References

Carlson, B. (2025, January 7). *Updating my favorite performance chart for 2024*. A Wealth of Common Sense. <https://awealthofcommonsense.com/2025/01/updating-my-favorite-performance-chart-for-2024/>



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