Market risk and reward

Investor education

It's important to have realistic expectations about the trade-offs between risk and reward. A balanced, diversified portfolio can help reduce portfolio volatility. This table shows long-term average annual returns for various asset allocations between U.S. stocks and bonds, and the performance of those allocations during select equity bear and bull markets.

Asset allocation	Average annual return (1926–2016)	Inflation-adjusted average annual return (1926–2016)	Number of years with a loss	Cumulative return 1973–1974▼	Cumulative return 3/31/2000–9/30/2002▼	Cumulative return 9/30/2002–12/31/2007▲	Cumulative return 12/31/2007–3/31/2009▼	Cumulative return 3/31/2009–12/31/2016▲
100% bonds	5.37%	2.40%	14 of 91	–4.82%	28.56%	26.12%	5.36%	35.96%
20% stocks and 80% bonds	6.63	3.63	12 of 91	–11.85	10.61	40.04	–6.18	65.88
30% stocks and 70% bonds	7.21	4.19	14 of 91	–15.25	2.32	47.41	–11.60	82.65
40% stocks and 60% bonds	7.75	4.71	16 of 91	–18.58	–5.52	55.06	–16.81	100.71
50% stocks and 50% bonds	8.25	5.20	17 of 91	–21.84	–12.93	63.00	–21.81	120.10
60% stocks and 40% bonds	8.71	5.65	21 of 91	–25.04	–19.92	71.23	–26.59	140.87
70% stocks and 30% bonds	9.13	6.06	22 of 91	–28.16	–26.50	79.76	–31.18	163.05
80% stocks and 20% bonds	9.52	6.43	23 of 91	–31.21	–32.69	88.60	–35.57	186.69
100% stocks	10.16	7.05	25 of 91	–37.12	–43.92	107.20	–43.77	238.44
100% cash	3.44	0.53	1 of 91	15.49	10.25	16.08	1.84	0.76

▲ Bull market ▼ Bear market

Source: Vanguard, as of December 31, 2016.

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

When determining which index to use and for what period, we selected the index that we deemed to be a fair representation of the characteristics of the referenced market, given the information currently available. For U.S. stock market returns, we used the Standard & Poor's 90 Index from 1926 to March 3, 1957; the S&P 500 Index from March 4, 1957, through 1974; the Dow Jones Wilshire 5000 Index from 1975 to April 22, 2005; the MSCI US Broad Market Index from April 23, 2005, to June 2, 2013; and the CRSP US Total Market Index thereafter. For U.S. bond market returns, we used the S&P High Grade Corporate Index from 1926 through 1968, the Citigroup High Grade Index from 1969 through 1972, the Lehman Brothers U.S. Long Credit AA Index from 1973 through 1975, the Barclays U.S. Aggregate Bond Index from 1976 through 2009, and the Bloomberg Barclays U.S. Aggregate Float Adjusted Bond Index thereafter. For U.S. short-term returns, we used the Ibbotson U.S. 30-Day Treasury Bill Index from 1926 through 1977 and the Citigroup 3-Month U.S. Treasury Bill Index thereafter.

All investing is subject to risk, including the possible loss of the money you invest. Diversification does not ensure a profit or protect against a loss.

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