THOUGHTS FOR THE WEEK

THE IMPROBABILITY OF 20%

August 22, 2025

Let's start with the punchline: a sustained 20% compound rate of return is the equivalent of scaling Everest…wearing shorts, while juggling tennis balls. We're being facetious, of course, it does happen. But the odds are exceedingly slim. We write this because there's a growing sense that investors' return expectations are increasing. To levels that not only begin to resemble lottery tickets, but incite excessive risk taking that could backfire.

Historically, the S&P 500, with dividends reinvested, returns ~10% per year. That's not every year, but over time, compounded, on average. The last 10 years have been well above that, averaging 13.8%. So, 20%? That's double the long-term average, and a full 45% above the return of what has been one of the best decades ever enjoyed by US investors. (Return sources: Bloomberg)

Let's now look at the frequency of even earning a 10% return. A study from "Wealth of Common Sense (2/9/2023)", looking at rolling 20-year returns from 1926-2023, showed the best was 18% per year from the early 1980's through the spring of 2000, and the worst return was 2%, ending 1949, which included the Depression and World War II. Almost 90% of the time annual returns were 7% or higher; and they were 10% or higher 56% of the time. (Source: A Wealth Of Common Sense)

So, despite the average of 10%, even that only occurred in 20 year rolling periods 56% of the time, stretching back nearly 100 years. Now let's look at the sequence of returns. A stark example juxtaposes the period ending the in the dot-com bubble with the period after. From 1981-2000, the S&P averaged a return of 15.7%. The next 20 years? The average was 7.5%. (Source: Bloomberg). We started this by picking a sustained 20% compound return as a marker, emblematic of rising expectations. But you can see just how hard that would be to achieve.

Then throw in standard deviation, a statistical term measuring the odds of variance around a mean, or average. The long-term standard deviation of the S&P is ~20%, meaning that 2/3 of the time you can expect a return +/- 20% around the average, and 95% of the time you can expect a return +/- 40% around the average. That also means that returns 40%+ above or below the average only occur 5% of the time. So, 20%? Double the long-term average? Again, rare.

And single stocks? Yes, huge returns are possible. But not probable. Let's look at 10x returns. From 2016 to 2025, only 22 stocks in the Russell 3000 delivered 10x returns, or roughly 0.73% over a 10-yer period. A few come to mind: Apple from 2007-2017; Amazon from 2009-2019; Nvidia from 2015-2025. (Source: Quantified Strategies Probability of 10x Return). Picking those winners *beforehand*? Hard, very hard.

Finally, consider the downside of positioning your portfolio for 20%+ returns. You'd likely NEED to concentrate in a few stocks. But what if you're wrong? Only about 20% of stocks outperform the market over 20-year periods. Moreso, about 20% of stocks don't even survive over 20 year periods. (Source: DFA Single Out Historical Performance). So, the odds are almost as great that you end up with a zero as you do owning a stock that outperforms, at least over the long-term.

All this is to say the average is pretty darn good, over the long-term. Trying to boost well above the average can work. But the odds are low, and the downside is real. And for our clients? Most have already won the financial race, building significant wealth from a major liquidity event or over the arc of a long, lucrative, high earning career. We're hired to help maintain that. As Charlie Munger quipped (yes, we quote Charlie all the time...might have something to do with his superb wisdom), "Why risk something you already have, for something you don't need?" This is not an admonishment, simply a note of caution: it's easy to be a genius in a bull market. But bull markets don't always last.

The Burbank Group at Morgan Stanley Private Wealth Management
Mike, Cate, Scott, Willis, Helen, Suzy, Oscar and Wes

Private Wealth Advisors:
Mike Burbank, CIMA®, CFP® Managing Director
Scott Hafeli, CFA® Executive Director
Willis Davis, CFA® Senior Vice President
Helen Donnelly Private Wealth Advisor Associate

Cate Rachford Senior Vice President, Group Director
Suzy Shin Associate Vice President, Wealth Management Associate
Oscar Castillo Portfolio Associate
Westley Cai Wealth Management Analyst

Morgan Stanley Private Wealth Management | The Burbank Group
555 California Street, 14th Floor | San Francisco, CA 94104
Phone: +1 415 576 3134

Sources:
https://www.bloomberg.com/

https://awealthofcommonsense.com/2023/02/deconstructing-10-20-30-year-stock-market-returns/

https://www.quantifiedstrategies.com/whats-the-probability-of-a-10x-stock/

Singled Out: Historical Performance of Individual Stocks | Dimensional

Awards:
2024-2025 Barron's Top 250 Private Wealth Management Teams
Source: Barrons.com (Awarded 2024-2025). Data compiled by Barron's based on 12-month period concluding in Dec of the year prior to the issuance of the award.

2024-2025 Forbes Best-In-State Wealth Management Teams
Source: Forbes.com (Awarded 2024-2025). Data compiled by SHOOK Research LLC based on 12-month time period concluding in March of year prior to the issuance of the award.

Mike Burbank | **2017-2025 Barron's Top 1,200 Financial Advisors: State-by-State**
Source: Barrons.com (Awarded 2017-2025). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

Mike Burbank | **2020 & 2022-2025 Forbes Best-In-State Wealth Advisors**
Source: Forbes.com (Awarded 2020 & 2022-2025). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.
Awards Disclosures