

APPENDIX

THE RETURN FROM COMMON STOCKS

In order to provide insight into the net results of investment in common stocks a sample of equities quoted on the New York Stock Exchange has been analyzed. In principle the sample was randomly selected; the need for quotations extending over several years, however, restricted the choice somewhat. This factor, and also the criteria for quotation on the New York Stock Exchange, no doubt biased the sample in the direction of better investment quality.

For each stock the total yield was calculated by averaging the total dividends paid and reducing the capital gain (or loss) to an equivalent annual rate of interest; thus a stock which 4 years ago cost \$100, had paid a total of \$10 in dividends and now sells at \$104 1/16 had a yield of 2 percent and a capital gain equivalent to a 1-percent rate of interest, giving a total return of 3 percent. According to the usual convention stock dividends of less than 25 percent were at cash values; larger stock dividends were treated as splits. Taxes were not taken into account.

This calculation was made for examples of stocks bought in 1925, 1930, 1935, etc., through 1955 and sold in 1959. The date in each year was close to January 15. Of the stocks bought in 1925 and 1930, some disappeared through bankruptcy.

The results are as follows:

Total return from stocks from year indicated to 1959

Annual return	Year of purchase						
	1925	1930	1935	1940	1945	1950	1955
Negative.....	21	9	4	0	0	2	8
0 to 5.....	22	40	9	4	12	6	14
5 to 10.....	35	40	20	36	22	18	20
10 to 15.....	24	15	26	25	20	15	23
15 to 20.....	13	14	19	20	23	25	25
20 to 30.....	10	7	20	17	33	37	21
30 to 40.....	7	6	8	9	9	14	9
40 to 50.....	4	1	7	4	2	6	5
50 and over.....	6	2	6	10	3	3	1
Total number.....	142	134	128	125	124	126	126
Mean return.....	¹ 7.43	² 6.75	24.65	23.64	18.49	20.62	15.81
Median return.....	8.95	6.91	15.77	14.11	17.30	16.54	14.27

¹ The mean return would be 15.56 if the 10 stocks that became a total loss are ignored.

² The mean return would be 13.58 if the 8 stocks that became a total loss are ignored.

This table shows that there is considerable dispersion in the results from different stocks, and hence considerable risk, but that by and large, even over long periods, stockholding has been rewarding enough. The median return is nearly always below the mean return, indicating that a majority of stocks do less well than the mean; even at the median the return is substantial.

It is of some interest to separate the two components of total return, which was done for 2 purchase years as shown in the following table: