

QUARTERLY NEWSLETTER

THE FAMILY HERITAGE TRUST COMPANY



The Miracle of Markets and the 100-Year Dataset That Changed the World

This year marks a milestone that most people won't notice, even though it helped make possible the way most Americans invest today. We now have 100 years of research-quality data on US stock market returns—powerful insights that have helped millions of investors pursue their financial goals.

Credit for this achievement goes to the Center for Research in Security Prices. CRSP was born in the 1960s when researchers at the University of Chicago assembled, for the first time, reliable stock-market returns data that went back to 1926. The evidence they uncovered led directly to the creation of the first index funds and, eventually, Dimensional.

Before this data became available, people could claim anything about investing. Nobody knew what the total stock market had really returned. Was it 2% a year? Was it 5%? Even the “experts” couldn't tell you. Stockbrokers gave advice, fund managers charged fees, and financial journalists wrote columns, but none of them could point

to reliable long-term data on what stocks had actually delivered. They were all just guessing.

University of Chicago professors Jim Lorie and Larry Fisher created CRSP to answer a simple question: What have stocks really returned? Their research-caliber database of stock-market returns avoided the issue of survivorship bias, which is the distortion you get when you ignore companies that failed along the way. Part of what made the research so groundbreaking is that the dataset was freely available to other researchers. Moreover, you could calculate total returns, including dividends. When Jim and Larry ran the numbers, the answer surprised everyone.

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DAVID BOOTH

Dimensional Founder and Chairman

US stocks had compounded at about 9% annually from 1926 to 1960. That market return was far higher than many people expected. In fact, Michael Jensen, an economist at the University of Rochester, looked at the period 1945 - 1964 and found that it was greater than what most mutual fund managers delivered after fees. The first CRSP dataset contained 35 years of data. Now we have 100. The market's overall performance has held remarkably steady, with returns having compounded at around 10% per year over the full century.¹ Anyone familiar with economic research knows how unusual and compelling it is for later data to confirm original findings.

What does a 10% compounded return really mean for investors? With that kind of return, you could double your money every seven years. Let's use the CRSP Deciles 1 - 10 total market return index as a hypothetical example of what public markets can make possible. One thousand dollars invested at the end of 2001 would have been worth \$8,799 at the end of 2025. A thousand dollars invested 50 years earlier would have been worth approximately \$306,433. And \$1,000 invested 100 years earlier would have been worth approximately \$17.1 million. That's the power of the market combined with the power of compounding, which would have been available to investors who didn't pick stocks, didn't time the market, and just stayed invested for the long haul.

When you look at rolling 10-year periods over the last century, patient investors who stayed in the market for a decade came out ahead in real terms roughly nine times out of 10. I'm not making any guarantees here, but it's reasonable for investors to expect positive returns, and the US market has historically delivered good outcomes.

The data also show that public markets have behaved exactly the way we would hope. Over the last century, US stocks returned about 10% per year, US bonds about 6%, and Treasury bills have kept pace with inflation. These returns make sense. Stocks are riskier than bonds, and bonds are riskier than cash, or money market accounts. In a well-functioning market, more risk should lead to more reward.

Year-to-year market movements can look like chaos: up 25% one year, down 30% the next. But when you look at the numbers from a long-term perspective, you can see the order underneath.

This "order" depends on conditions that make fair pricing possible: a system built on enforceable agreements, investor protections, transparency, enormous trading volumes, and sound accounting standards. In such a system, insider trading is discouraged and punishable, competition is fair and fierce, and investors benefit from information and access. These conditions make the wisdom of crowds possible. Millions of investors, each looking out for their own self-interest, compete intensely on pricing. All the good news and bad news about any given company gets reflected in the price. All the positive and negative expectations for a company's future prospects get baked in. You don't have to take somebody's word for it.

This system benefits more than just investors. An investor's return is a company's cost of capital. When companies issue stock, they effectively give up 10% a year, the rate of return demanded by investors, to get that capital. Companies are willing to issue shares because they need capital to grow their businesses, and investors are willing



to buy the shares because they expect a return on their investment. Both sides get a fair deal with an attractive return for investors and a reasonable cost of capital for the company. Bond financing costs less, as you'd expect for lower risk. The system works because it's fair, and that's helped it last.

What powers it all is human ingenuity. People have ideas, form companies, and need capital to grow. Investors provide that capital and share in the upside. Millions of people at thousands of companies work every day to improve their products, enhance their services, and lower their costs—constantly adapting to a changing world. The future is always uncertain and not every company will succeed, but the incentive system rewards innovation and problem-solving. Collectively, this drive to do better is the engine of market returns. That human ingenuity is what you're really investing in when you buy the market.

Many people still think of themselves as outsiders when it comes to finance. They see insiders making money and assume the game is rigged. Before the CRSP data existed, there was good reason to worry. Investors had to trust the experts but had no way to know whether their advice was any good.

One hundred years of data shows something different. In public markets, you don't need to be an insider. You can see for yourself how different investments have performed over time, how much volatility to expect, and which returns are realistic. You don't need special access. You don't need to pick the right stocks or time the market. You can "win" without having to outsmart the market. The question for investors then becomes, if this is what markets deliver, what is the best way to get exposure? The entire investment management industry has been built to solve this with a wide range of choices from hedge funds to index funds and everything in between.

For me, the quest to answer that question started with a chain of events in the 1960s. In 1963, a young data dog named Mac McQuown attended a preliminary presentation by Jim Lorie of the CRSP results. Mac was so intrigued that he buttonholed Jim afterward with questions. Jim pointed him to a University of Chicago

grad student named Gene Fama, who was studying what this new data revealed about how markets actually work. A few years later when Gene was a professor at Chicago, I became his graduate student. Mac would go on to hire me at Wells Fargo in 1971 to help work on one of the first index funds. And before I started Dimensional in 1981, Mac was one of the first people I called.

It was the CRSP data and the research Gene and other leading academics were conducting that gave us the confidence to do something different. We weren't guessing. We had decades of evidence showing that patient, diversified investors get rewarded over time.

At Dimensional, we've spent 45 years building on this foundation, continuing work with Gene, who went on to

win a Nobel Prize, and many other great academics. Gene and our Research team still use the updated CRSP data. We've watched the evidence accumulate decade after decade. The story is remarkably resilient and the lesson for investors remains the same: Markets reward patience, diversification works, costs matter, and trying to outsmart the collective wisdom of millions of buyers and sellers is a losing game.

It has perhaps never been a better time to be an investor. We now have a century of data to give us confidence, a wide range of ways to get exposure, vehicles like

low-cost mutual funds and exchange-traded funds to give investors access, and investment managers with decades of experience to deliver results. The question isn't whether you can access the market—you can. It's whether you're capturing that market exposure as efficiently as possible after fees and taxes and have the mindset to stick with it and benefit long term.

One hundred years is a good test case. I don't know of many better ones. Every decade, we add more data, and the story has stayed the same. What about the future? As long as necessary market conditions are maintained, there's no reason to think it will be any different. When you invest in the broad market, you're investing in human ingenuity. I remain confident in the power of human ingenuity to harness creativity and resilience to drive progress and markets over the long run. That's worked for the last century. I have all the data I need to expect it will work for the next one.

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1. In US dollars. Based on S&P 500 Index annual returns, 1926 - 2025. S&P data © 2026 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. S&P 500, January 1926 - December 2025: 10.49%. Bloomberg US Aggregate Bond Index, January 1976 - December 2025: 6.52%. One-Month US Treasury Bills, January 1926 - December 2025: 3.29%.

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