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# REASONABLE EXPECTATIONS

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- Bond Returns Over Next 10 Years.
  - Bonds lose value when yields rise.
  - "Today's bond rates predict more than 90% of the variation in 10-year bond portfolio returns" according to Michael Fink in 5/2015 issue of Research.
  - The yield on 10-year Treasuries has fluctuated between 1.68% and 2.50% year-to-date; this is a good indication of expected bond returns over the next 10 years.
  - Our current outlook is total annual return to average 2% for bonds over the next 5-10 years. This has been our outlook for the last 3+ years. Initially, our outlook was below consensus. However, today it would be close to or slightly above consensus.

- Common Stock Returns Over Next 10 Years.
  - Our outlook has been for total return of approximately 5% annualized over the next 5-10 years. This has been our outlook since 2000. During most of this period, we were below consensus. At present, we are near consensus – with several forecasts well below a 5% annualized return.
  - Our outlook has not changed; the main factor has been the level of prices relative to earnings (P/E ratios); other factors have been debt levels, expected economic growth, and government policies.

- Both bond and stock returns are expected to be well below the long-term averages. This is in contrast to the 80s and 90s, when both bond and stock returns were well above long-term averages.

- Portfolios with 40% bonds and 60% stocks would have expected long-term returns of 3.8%. Although stocks will most likely fluctuate more in value, the long-term return should be significantly better than bonds, over the next 5-10 years.

- Portfolios with 50% bonds and 50% stocks would have an expected long-term return of 3.5%. Portfolios with 30% bonds and 70% stocks would have expected long-term returns of 4.1%. We will have periods when we have negative returns for bonds and periods when we have negative returns for stocks. The results will be far below what we experienced in the 80s and 90s.

- It is very important that everyone adjust their plans accordingly. Please contact us if you would like to meet to review your plans, including projected cash flow. Now is also a good time to review long-term asset allocation (portion in bonds and portion in stocks). We feel our bond strategies and stock strategies are well-suited for the current environment.