

## Do stocks outperform Treasury bills?

Nick Griffin | Munro Partners | 07 February 2018

### SUMMARY

It is generally accepted that stock markets provide long-term outperformance over cash. However, in his November 2017 paper 'Do Bonds Outperform Treasury Bills', Bessembinder concluded that the majority of common stocks that have appeared in the CRSP (Common Stock Database) since 1926 have lifetime buy-and-hold returns less than one month Treasuries. When stated in terms of lifetime dollar wealth creation, the best performing 4% of listed companies explain the net gain of the entire US stock market since 1926, while all other stocks collectively matched the return of Treasury bills (cash) over the same period.

Bessembinder studied the buy-and-hold-returns of all 25,332 stocks listed in the CRSP since 1926, with the best performing 1,092 (4%) comprising the entire wealth creation of the US stock market since 1926, roughly US\$35 trillion in total (refer Figure 1). The top 50 stocks (Figure 2 overpage) of this 1,092 accounted for just under 40% of the total of US\$35 trillion. While a total of 9,579 companies created positive wealth versus Treasuries over their lifetime, this was outweighed by the remaining 14,661 that destroyed value versus Treasury Bills.

Bessembinder's work highlights a number of interesting issues:

- Equity markets are not efficient allocators of capital versus Treasury Bills. Only the best equities are, which is something indexes take account of in regular reweights.
- In the long-run, there is likely to be just a handful of big winners and a long tail of losers. The positive skewness of equity markets is more extreme than most think.
- Of the best performers, the most recent winners have outperformed the older winners.

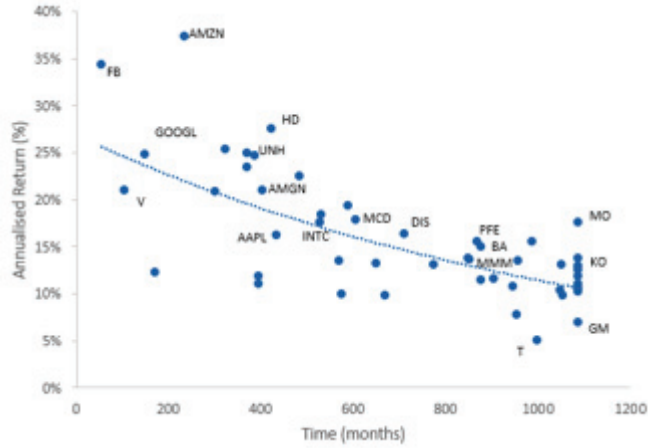
[Read Hendrik Bessembinder's full paper](#)

**Figure 1: US stock market wealth creation dominated by best 4%**



Source: Munro Partners, Hendrik Bessembinder

Figure 2: More recent wealth creators are doing it faster



Source: Munro Partners, Hendrik Bessembinder



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