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For Stocks in the Developed World, It Was a Decade of Zeros

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It was a decade that began with such promise. Stock markets in Europe and America ended the 1990s at record levels, and even bedraggled Japan was at a two-year high. “Dow 36,000” was on some best-seller lists.



Instead, it became a decade that richly earned the name “the zeros.” For the entire developed world, that was just about the decade’s total return.

The United States stock market lagged even that modest return. According to the MSCI indexes, which measure virtually all stock markets using consistent criteria, an investor in the American market who reinvested all dividends — and who somehow avoided all taxes and transaction costs for the decade — would have ended 2009 with 12 percent fewer dollars than when the decade began. That is an annual return of negative 1.3 percent.

Even that calculation understates the sad news for stock investors. Because of inflation, as measured by the Consumer Price Index, a 2009 dollar is worth about 78 cents in 1999 dollars.

Over all, the developed world did manage to rise a puny 2.3 percent, or an annual rate of 0.2 percent, not enough to offset the transaction costs any investor would have faced, and far below inflation.

Those figures are measured in dollars to assure international comparability. The dollar also weakened over the period, meaning that the apparent returns were even worse when measured in other currencies.

Of course, things looked much worse a year ago.

In 2009, stock markets around the world recovered strongly after hitting bottom in late winter. For the year, the American index was up about 27 percent and the developed world rose about 31 percent.

But it was a different story for emerging markets, which actually did emerge. When the decade began, China had the 43rd-largest stock market in the world, trailing such countries as the Philippines, Peru and Poland. At the end of the decade, its market capitalization ranked ninth in the world, having passed countries like Brazil, Spain and Italy.

Much of that growth was the result of new issues, as China partly privatized many government-owned enterprises. But an investor in Chinese stocks over the decade would have earned more than 150 percent, or a compounded 9.7 percent.

Among emerging markets, that return was actually a little below average. As a group, emerging markets gained about 160 percent, or 10.1 percent a year. Brazil's market grew more than 500 percent, or 20 percent a year. India climbed at an annual rate of 14.1 percent, for a total gain of more than 270 percent.

Among the developed countries, the best performers for the decade were those that were most dependent on natural resources, whose prices generally rose, in part because of additional demand from expanding economies in emerging markets. Canada's stock market more than doubled, providing an annual return of 9.2 percent, while Australia's tripled, giving investors an annual return of 12.7 percent.

Just as few forecasters predicted the sad performance of most developed countries, so, too, did few foresee the gains for emerging markets. In 1999, memories were fresh of the Asian currency crisis and Russian default, which scared some investors away. There was also talk of a "digital divide," in which the rich countries would profit from the Internet while poorer ones could not afford the needed infrastructure.

As it happened, the lessons of the Asian currency crisis served many emerging countries well, by encouraging them to amass large reserves of foreign currency, principally dollars. To do that, they sought to keep their currencies undervalued to encourage exports, and as a group they succeeded.

In the United States, and to some extent Europe, the end of the technology stock bubble brought on a recession, which was worsened by the reaction to the shock of Sept. 11, 2001. The Fed responded by driving interest rates to historic lows and keeping them there longer than now appears to have been wise.

Low interest rates stimulated consumer demand and caused Americans to buy more things, many of them imported. At the same time, the low rates, combined with a lowering of credit standards by mortgage issuers, caused home prices to soar, providing more consumer spending power as homeowners refinanced their loans and extracted equity.

When the party stopped in America, many emerging countries were well equipped to deal with the sudden difficulty in finding loans. With large foreign currency reserves, they were lenders, not borrowers.

The MSCI world indexes have a relatively short history, but the similar Standard & Poor's 500-stock index in the United States dates back to 1928. The decade of the zeros was the first decade ever that the S.& P. 500 had a negative total return. Prices fell in the 1930s, but dividends moved the index narrowly into positive territory.

Bring on the teens. Please.