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Investopedia: “What is the Average Annual Return for the S&P 500?”
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What Is the Average Annual Return for the S&P 500?

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The S&P 500—short for the Standard & Poor's 500 Index—is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S. While it assumed its present size (and name) in 1957, the S&P actually dates back to the 1920s, becoming a composite index tracking 90 stocks in 1926.

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The average annualized return since its inception in 1926 through Dec. 31, 2021, is 10.49%.

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The average annualized return since adopting 500 stocks into the index in 1957 through Dec. 31, 2021, is 10.67%.

2

The average annual return (AAR) is the percentage showing the return of a mutual fund in a given period. In other words, it measures a fund's long-term performance, so it's a key tool for investors considering a mutual fund investment.

Key Takeaways

- The S&P 500 index acts as a benchmark of the performance of the U.S. stock market overall, dating back to the 1920s (in its current form, to the 1950s).
- The index has returned a historic annualized average return of around 10.5% since its 1957 inception through 2021.
- While that average number may sound attractive, timing is everything: Get in at a high or out at a relative low and you will not enjoy such returns.

The History of the S&P 500

- During the first decade after its introduction in 1957, and reflecting the economic expansion in the U.S after World War II, the value of the index rose to slightly over 800.
- From 1969 to 1981, the index gradually declined to fall under 360 as a sign of high inflation.
- During the 2008 financial crisis and the Great Recession, the S&P 500 fell 46.13% from October 2007 to March 2009.
- By March 2013, the S&P bounced back from the crisis and continued on its 10-year bull run from 2009 to 2019 to climb more than 250%.
- The COVID-19 pandemic in 2020 and the subsequent recession caused the S&P 500 to plummet nearly 20%.
- The S&P 500 recovered during the second half of 2020 reaching a number of all-time highs in 2021.

How Inflation Affects S&P 500 Returns

One of the major problems for an investor hoping to regularly recreate that 10.67% average return is inflation. Adjusted for inflation, the historical average annual return is only around 7%.

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There is an additional problem posed by the question of whether that inflation-adjusted average is accurate, since the adjustment is done using the inflation figures from the Consumer Price Index (CPI), whose numbers some analysts believe vastly understate the true inflation rate.

How Market Timing Affects S&P 500 Returns

Another major factor in annual returns for an investor in the S&P 500 is when they choose to enter the market. For example, the SPDR S&P 500 ETF Trust (SPY), which basically duplicates the index, performed very well for an investor who bought between 1996 and 2000 but experienced a consistent downward trend from 2000 to 2002.

Investors who buy during market lows and hold their investment, or sell at market highs, will experience larger returns than investors who buy during market highs, particularly if they then sell during dips.

Attempting to time the market is not advised, particularly for beginning investors.

It's clear that the timing of a stock purchase plays a role in its returns. For those who want to avoid the missed opportunity of selling during market lows, but don't want the risk of active trading, dollar-cost averaging is an option.

What Is the S&P 500 Index?

The S&P 500 Index is a collection of stocks intended to reflect the overall return characteristics of the stock market as a whole. The stocks that make up the S&P 500 are selected by market capitalization, liquidity, and industry. Companies to be included in the S&P are selected by the S&P 500 Index Committee, which consists of a group of analysts employed by Standard & Poor's.

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505

The number of stocks in the S&P 500 actually varies a bit—there are currently 505 in it—due to several companies within the index having multiple share classes. These include Google Inc., Meta Platforms, Inc., and Berkshire Hathaway Inc.

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The index primarily mirrors the overall performance of large-cap stocks. The S&P 500 is considered by analysts to be a leading economic indicator for both the stock market and the U.S. economy. The 30 stocks that make up the Dow Jones Industrial Average were previously considered the primary benchmark indicator for U.S. equities, but the S&P 500, a much larger and more diverse group of stocks, has supplanted it in that role over time.

It's difficult for most individual investors to actually be invested in the S&P 500 themselves since that would involve buying 500 individual stocks. However, investors can easily mirror the index's performance by investing in an S&P 500 Index exchange-traded fund, which duplicates the index's holdings in its portfolio and so corresponds to its return and yield. Since ETFs are frequently recommended for beginning and risk-averse investors, the S&P 500 is a popular choice for many investors trying to capture a diversified selection of the market.

Investing in these types of assets would require a stockbroker. Brokers can have varying prices, features, and intent. While some brokers may specialize in more advanced trading, others may be more geared toward beginners.

What if you had started investing years ago?
Find out what a hypothetical investment would be worth today.

Select a Stock

What Is the 50 Year Average Return on the S&P 500?

Over the past 50 years (1972-2021) the average annualized return on the S&P 500 is 11.17% (nominal) and 7.00% (adjusted for inflation).

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Is Investing in the S&P 500 a Safe Investment?

Generally speaking, investing in the S&P 500 is safer than buying a single stock and produces better returns than actively managed portfolios. Its broad diversification means that the decline in some sectors may be offset by gains in other sectors and, over long-term horizons, the index typically generates better results.

What Is the Cheapest Way to Invest in the S&P 500?

For the average or novice investor, the simplest and most affordable option is to buy shares of an S&P 500 exchange-traded fund or index fund. These are collections of stocks grouped together so that the fund's performance mimics the S&P 500 index. You can't invest in the S&P 500 directly because it is a stock market index and not an individual stock. But exchange-traded funds and index funds are passive investment options that track the S&P 500s performance. The passive management offered by exchange-traded funds and index funds is optimal for novice investors since you only have to track the performance of the index itself instead of trying to pick individual stock winners. Your first step would be to open an account with a brokerage firm. Most have easy-to-use online platforms, where you can buy and sell most types of investments for a fee.

Finding the right financial advisor that fits your needs doesn't have to be hard. SmartAsset's free tool matches you with fiduciary financial advisors in your area in 5 minutes. Each advisor has been vetted by SmartAsset and is legally bound to act in your best interests. If you're ready to be matched with local advisors that will help you achieve your financial goals, get started now.

Article Sources

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