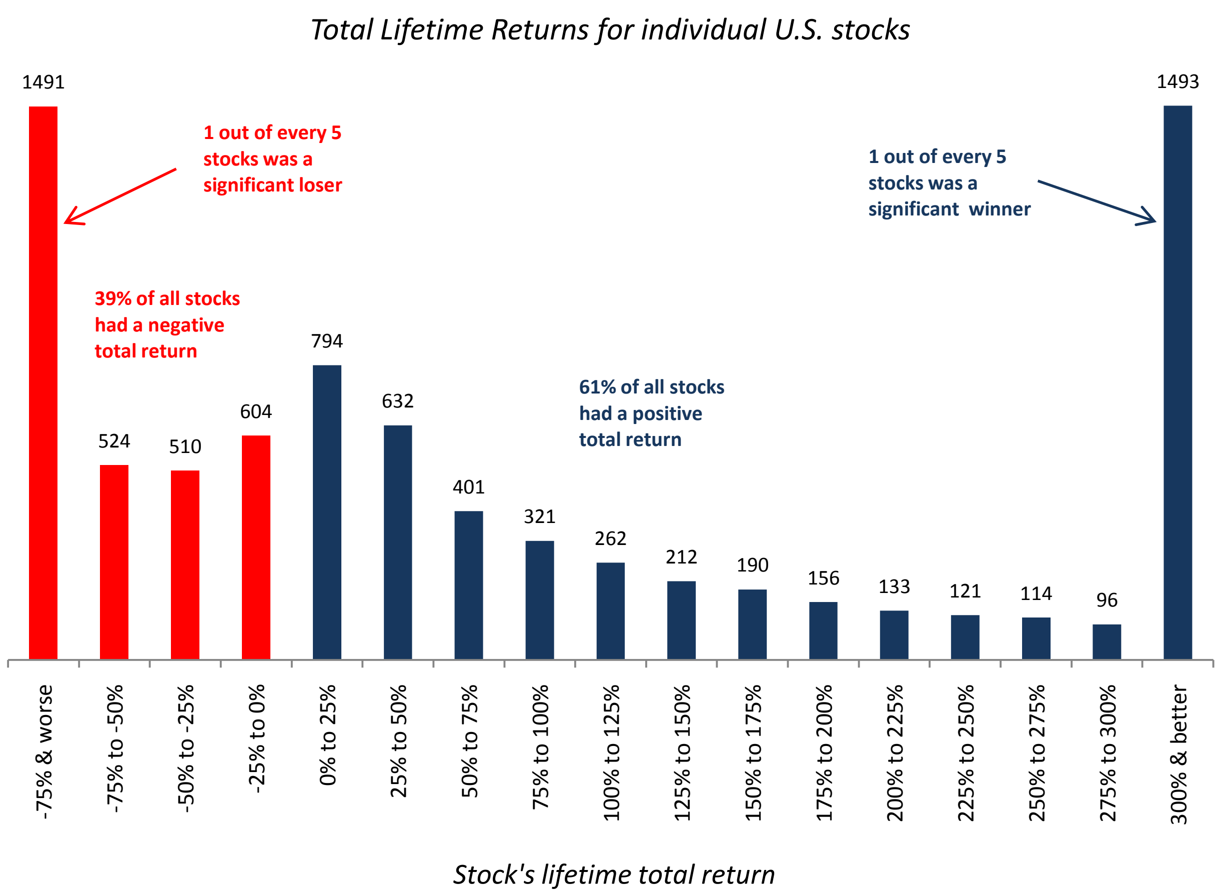
The Capitalism Distribution

Observations of individual common stock returns, 1983 - 2007

- 39% of stocks had a negative lifetime total return
  - (2 out of every 5 stocks are a money losing investment)
- 18.5% of stocks lost at least 75% of their value
  - (Nearly 1 out of every 5 stocks is a really bad investment)
- 64% of stocks underperformed the Russell 3000 during their lifetime
  - (Most stocks can't keep up with a diversified index)
- A small minority of stocks significantly outperformed their peers
  - (Capitalism yields a minority of big winners that all have something in common)

In this paper we make the case for the Capitalism Distribution, a non-normal distribution with very fat tails that reflects the observed realities of long-term individual common stock returns.

Our database covers all common stocks that traded on the NYSE, AMEX, and NASDAQ since 1983, including delisted stocks. Stock and index returns were calculated on a total return basis (dividends reinvested). Dynamic point-in-time liquidity filters were used to limit our universe to 8,054 stocks that would have qualified for membership in the Russell 3000 at some point in their lifetime.



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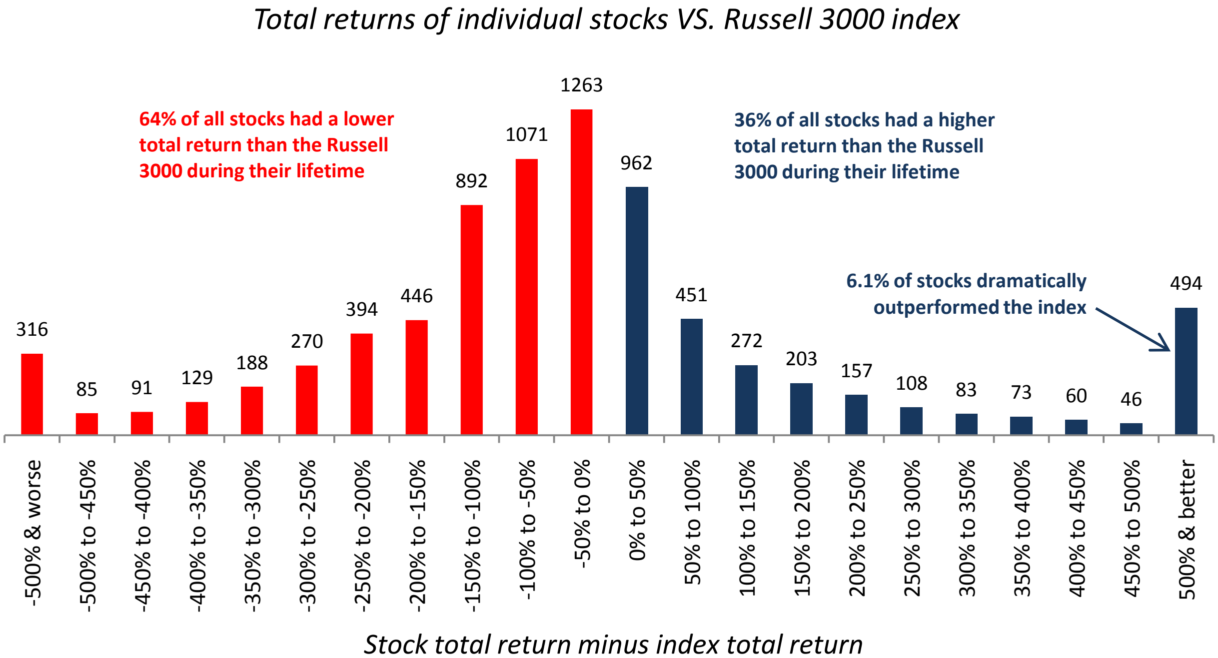
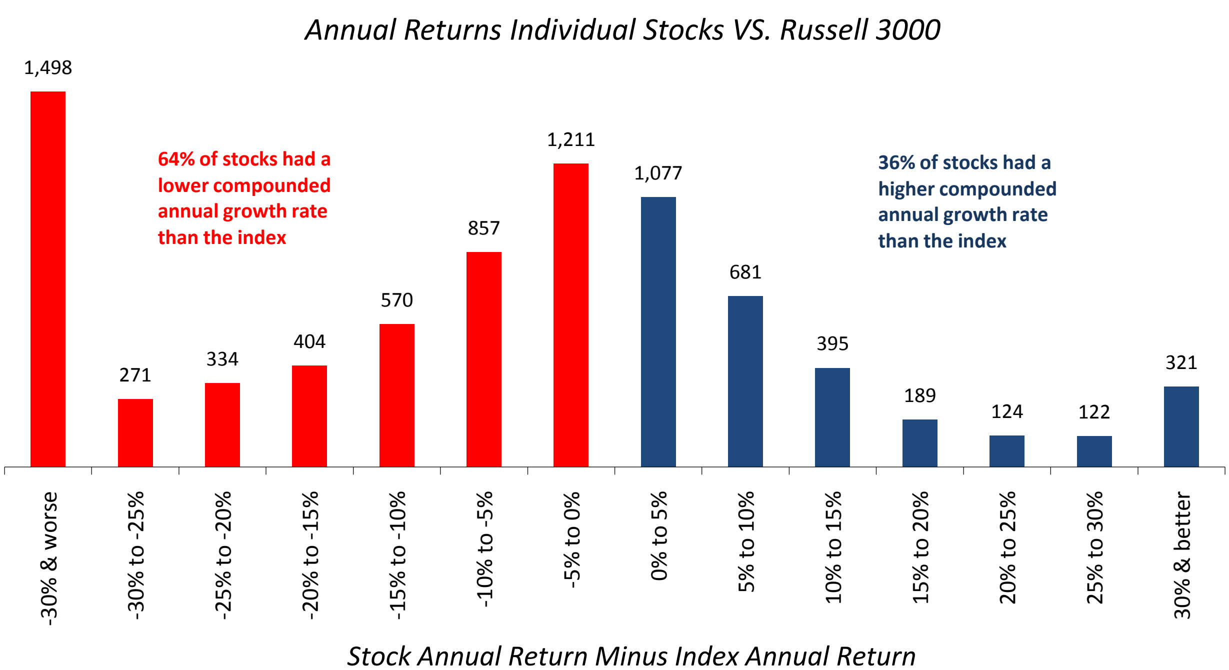
The following chart shows the **lifetime** total return for individual stocks relative to the **corresponding** return for the Russell 3000. (Stock's return from X-date to Y-date, minus index return from X-date to Y-date)



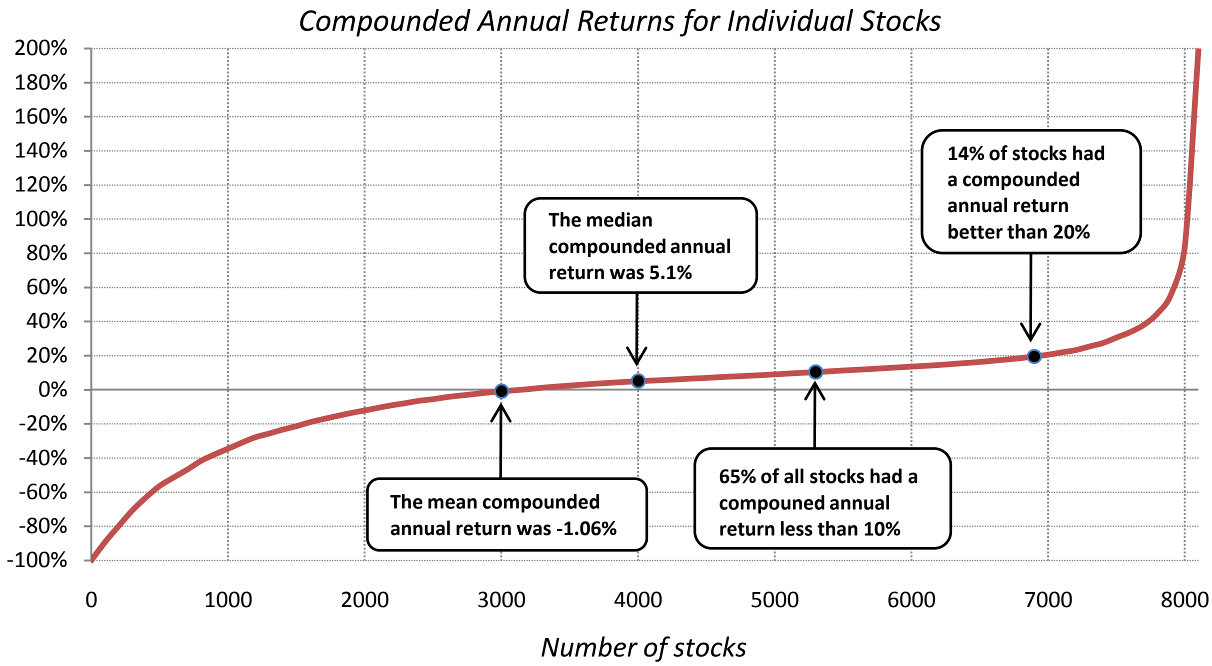
The fat tails in this distribution are notable. 494 (6.1% of all) stocks outperformed the Russell 3000 by at least 500% during their lifetime. Likewise, 316 (3.9% of all) stocks lagged the Russell 3000 by at least 500%.

The next chart shows the **lifetime** compounded annual return for individual stocks relative to the **corresponding** return for the Russell 3000.



The left tail in this distribution is significant. 1,498 (18.6% of all) stocks dramatically underperformed the Russell 3000 during their lifetime.

The next chart shows the cumulative probability distribution of the compounded annual return of all stocks.



The next shows how stocks, when sorted from least profitable to most profitable contributed to the total gains produced from all stocks. The conclusion is that if an investor was somehow able to avoid the 25% most profitable stocks and instead invested in the other 75% his/her total gain from 1983 to 2007 would be 0%. In other words, a minority of stocks are responsible for the majority of the market's gains.