Time Travel, Socialism, and Equity Market Returns

April 1997

At the end of the 19th Century, George Bernard Shaw together with Beatrice and Sidney Webb founded the Fabian Society. The Society was dedicated to the promulgation of socialist ideology via the process of "permeation." This meant the persuasion, by continual discussion with any who would listen, to acceptance of the superiority of the socialist economic system. The Fabians were entirely opposed to violent revolution.

Some years after the First World War, George Bernard Shaw wrote "The Intelligent Woman's Guide to Socialism and Capitalism." If any of the readers of this essay were investment advisors in London in 1925 and had read this book, they would hardly have believed that much of its program would become a reality. Indeed, if these same advisors could have traveled forward in time and had thus learned of the General Strike of the 1920's, the Great Depression, the Second World War, the dismemberment of the Empire, the introduction of socialist economic policy, periods of serious inflation, currency devaluation and other unfortunate events, could any have predicted that the U.K. equity market would achieve a return virtually identical to that of the U.S. over a 70 year period when adjusted to a common currency? Although, it may seem astounding, the U.S. and the U.K. have almost identical long-term equity returns when adjusted for currency.[1] Unadjusted for currency, U.K. returns are higher.

Apart from being a commentary on the obvious inability of humans to forecast the future, this fact does illustrate the inherent advantages of accumulated wealth. London was the pre-eminent world financial center at the opening of the 20th Century. At the beginning of the 21st Century this is no longer the case. However, investors were not deprived of the opportunity to earn an acceptable rate of return. In investing, as in life, the race is not necessarily to the swift.

Afterthought: It is obviously difficult to predict the future. It is almost as difficult for those in the present to predict the past. And virtually no one in 1925, with advance knowledge of the future, would know that the U.K. and U.S. equity market returns would be virtually identical historically. How, then, is it possible to predict with any degree of certainty market returns in the future? If one cannot predict the past, it must be much more difficult to predict the future.

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[1] Roger Ibbotson and Gary Brinson: Global Investing: the Professional Guide to World Capital Markets (New York: McGraw-Hill, 1993) p.168.