Since the late 1990s, we have been in a period of very high risk in the Western developed world.

By Bruce Baker, Puzzle Financial Advice

To the extent that you wish to have funds outside of cash and term deposits, you must be prepared to accept that high level of volatility. Therefore, it may be a good time to reflect on what that volatility might mean for your portfolio. Some material that might assist in that reflection, is my very long-term research such as:

- If we look at this document http://www.puzzlefinancialadvice.com.au/Papers/010501_variabilility_of_returns_charts.pdf page 4, you will notice that from US experience, over 1 year periods the range of "normal" nominal returns is between ~-40% and ~85%. We invest in shares, not because they produce reliable returns because the DO NOT but because over the VERY long term (eg 50 years), they tend to out-perform as you can see on Page 1 of http://www.puzzlefinancialadvice.com.au/Papers/010501_variabilility_of_returns_charts.pdf
- To give us some sort of guide to the normal variability of risky assets such as shares if we look at a broad share market index (eg ASX200), we need to look at some historical data such as we see on page 6 of this document http://www.puzzlefinancialadvice.com.au/Financial%20Security%20keys%20-%20what%20markets%20tell%20us%20130729.pdf This chart tells us, from historical experience that if you want a reasonable yardstick to judge risky assets like shares by, over 5 year periods, your should expect returns to range between 27% real returns and -19% real returns based on long-term UK experience.