INVESTMENT STRATEGIES

The top 20 index funds of the decade

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Sometimes it pays to think long-term. There's no clearer example of that than index funds.

Investopedia defines an index fund as "a type of mutual fund or exchange-traded fund with a portfolio constructed to match or track the components of a financial market index." In other words, these funds are huge — the classic example is the S&P 500, which tracks the 500 largest companies in the U.S.

"One of the advantages of investing in index funds is ensuring that you own the entire market," said Derek Williams, a wealth advisor at Veratis Advisors in Cary, North Carolina.

Because of their size, index funds move slowly. But thanks to their diversity, they move more reliably upward than many other investments, at least in the long run. The S&P 500, for example, has gained an average of 12.39% per year since 2013, and an average of 10.7% per year since its origin in 1957.

But some index funds do even better — much better. Morningstar Direct has revealed the 20 highest-performing index funds of the past decade, and they make it clear that good things come to those who wait.

"These funds have done well because they were leveraged, bullish bets and the stock market winds happened to blow in the direction of these bets," said Kashif Ahmed, president of American Private Wealth in Bedford, Massachusetts.

At the top of the list is the Grayscale Bitcoin Trust (GBTC), which yielded a 10-year annualized return of 64.03%. This fund is unusually volatile. It tracks bitcoin's market price, which has seen some spectacular increases in the past 10 years — and also some spectacular decreases. In 2022, for example, Grayscale's fund fell 75.8%.

"Grayscale Bitcoin Trust is still showing as the top-performing index fund of the decade even after falling in price by nearly half since its peak in 2021," Williams said. "This shows you that 10-year performance can be misleading when investors are performing research. Many look at long-term returns as the indicator of

The rest of the funds, like the decade's top mutual funds, have something else in common: Most of them are related to tech stocks.

In second place is the Direxion Daily Technology Bull 3X ETF (TECL), which triples the performance of the Technology Select Sector Index. Over the past decade, Direxion's fund yielded an average of 36.82% per year.

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In the No. 3 spot is the iPath Global Carbon ETN (GRNTF), which tracks the performance of carbon-related credit plans — part of the "cap and trade" approach to battling climate change. From 2013 to 2023, the fund's average yearly return was 33.45%.

The top five is rounded out by ProShares Ultra Semiconductors (USD), which yielded 33.41%, and Direxion Daily Semiconductor Bull 3X Shares (SOXL), which saw returns of 31.77%. Both funds follow — and multiply — the performance of stocks in semiconductor companies.

Those last two are no surprise. Over the past decade, semiconductors have become crucial to modern electronics, from smartphones to satellite systems to medical devices. American companies dominate the industry, taking up about half of global market share, according to the Semiconductor Industry Association. And since the devices are also essential to artificial intelligence, the industry seems poised to keep thriving in the future.

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"The semiconductor funds are all experiencing a meteoric rise in chip stocks, most notably NVIDIA, as AI-related sentiment pushes these stocks much higher," Williams said.

All of these index funds have produced spectacular returns. But as Ahmed pointed out, investing in them is not without risks.