



Ten Reasons To Love Bonds

Saturday's With Jim

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Dear Friends,

Why would we so lovingly embrace bonds when their world is dark and arcane, their returns about half of stock returns over long periods of time and, despite the safety of their principal, can lose money from time to time? Here are ten reasons:

1. They diversify stocks. Treasury bonds are a consistent outperformer in recessions, when stocks tank.
2. Their principal is guaranteed by the issuing entity. Like Certificates of Deposit, bonds pay periodic interest and return all principal at maturity.
3. If stocks are cyclones, bonds are soft breezes. Bond volatility is much less than stock volatility, cushioning stock volatility for risk adverse people.
4. Bonds outcomes are far more predictable than stock outcomes. High quality bonds are the no risk benchmark when held to maturity.
5. Lower rated (junk) bonds offer stock-like returns. They act like stocks, return almost as much as stocks, but are less volatile than stocks.
6. A bond portfolio can be precisely tailored to your needs. We can use credit quality and maturity in any combination to match your investment needs.
7. Leverage (borrowed money) can dramatically increase returns on even the safest of bonds. If borrowed money is cheap, leverage supercharges bond returns to near those of stocks, causing an increase in volatility but not adding to the bond investor's nightmare – a default wherein the maturity principal is impaired.
8. Bonds make the ideal partner to a short-term investment, under about five years. Bonds provide safety of principal and very competitive returns when used for investments which will be redeemed in full before five years or so.
9. Investors who need a guaranteed sum of money at a particular time find bonds the perfect investment.
10. Bonds are easy to understand in principle, with subtleties that even the most sophisticated investors will appreciate

So what?

Bonds are versatile investments that please investors from newbie to sophisticate. We find them useful in your portfolios for all of the above reasons.

Thank you for investing with us.

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