

## Beware of the Bond Bears

Written by Rob Copeland

Friday, 10 April 2015 15:31 - Last Updated Wednesday, 13 May 2015 18:00

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Over the past few years, investors have heard plenty of "experts" urging them to get out of bonds. But it turns out that the best move was to ignore that advice.

The bond market—as measured by the Barclay's U.S. Aggregate Index—has done very well despite the widespread predictions of disaster. Over the past year, it's returned 5%, and over five years it's returned an average of 4.33%. Meanwhile, the SPDR Barclays High Yield Bond ETF (JNK) has returned an average of 6.68% over three years and 7.5% over five years.

The reasoning behind the call to drop bonds for cash was simple: Inflation would rise, which would lead to spiking interest rates. Because bond prices move inversely with rates, bond values would be crushed. The bond market, many commentators said, was going to get flattened the same way that equities got flattened in 2008.

But that reasoning turned out to be wrong; those who dumped bonds indiscriminately regret doing so today. Inflation has remained low, global demand for U.S. bonds has helped push interest rates lower, and bonds have done just fine.

One lesson from all this is that blanket statements about investing—like "bonds are a bad place to be," are best ignored. They are typically made for shock value by people who don't have a clue about how the markets really work. Often, these commentators have hidden agendas, such as a desire to push other asset classes—in this case, assets like stocks or real estate.

There are many different types of bonds, each with distinct characteristics. There are investment-grade corporates and high-yield corporates. Treasuries, mortgage-backed securities, muni bonds—when interest rates do rise, some will fall. Others, though, rise or fall due to factors like duration, credit quality or certain unique factors.

Right now, I believe that some of the best fixed-income opportunities can be found in these categories:

- Short-duration, high-yield, asset-backed bonds

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- Non-agency mortgage backed securities
- Insured, high-yield municipal debt

Areas I'd stay away from include Treasuries, long-dated, non-asset-backed high-yield bonds and investment-grade corporate paper.

Investors should also remember that bonds' value isn't just in their potential price gains. They belong in a balanced portfolio in order to counterbalance the risk of stocks, and to smooth the volatility of your investments over time.

That's not a sexy message, and you won't hear the talking heads on TV discussing it very often. They'll be too busy making foolish blanket statements. Feel free to get in touch with us if you'd like to discuss options for fixed-income investing.