Rising interest rates are said to be the enemy of bond investors--and since we're not in an environment of rising rates, many people are wary of buying bonds at all.

However, there are good reasons to avoid going to that extreme, as I'll explain.

One reason rising interest rates are a big deal right now is that they've been so low for so long. To support the recovery after the Great Recession, the Federal Reserve lowered a key interest rate, known as the Federal Funds Rate, to near zero. It stayed there through 2015, but has gradually risen to its current 1.91%.

And the Fed has signaled its intention to continue raising interest rates. As rates climb, the value of existing bonds falls, because newly issued bonds pay higher rates. A five-year bond paying 5% is obviously less attractive than a five-year bond paying 6%. Bonds with longer maturities lose more value, because their owners are stuck with more years of getting paid the old, lower interest rate.

What's important to understand is that your bond only loses value if you choose to sell before it matures. If you hold it until maturity, you will get your principal back, assuming that the issuer is in good standing.

The reason most portfolios should include bonds, even when interest rates are rising, is that bonds play an important diversification role. Historically, in periods where stocks have fallen significantly, bonds have served as a cushion against steep losses.

To own a stock-only portfolio, devoid of bonds, would be to put all of your eggs in one basket. This doesn't mean you should stick your head in the sand in terms of the impact rising rates can have on bonds. It just means you have to make adjustments.
There are two things to consider. First, select bonds that you are comfortable holding to maturity. Don't think of your bond holdings as a piggy bank that you can break open if a need for cash arises unexpectedly. By holding to maturity, you'll earn the interest payments, or "coupon," and get your principal back unless the issuer defaults.

Second, consider investing in bonds with shorter maturities. As described above, a shorter-term bond won't lose as much value as rates rise, because they don't keep the buyer's money tied up as long.

So what percentage of your portfolio should bonds comprise? Which types of bonds, with which maturities, should you own? The answer depends on your individual situation—what your goals are, what your investing timeframe is, how comfortable you are with risk, and so on. Please feel free to give me a call if you'd like to discuss the best options for you.