DOWNLOAD PDF BOND AND SHARE PORTFOLIOS

Chapter 1 : Portfolios - Bridgeport Asset Management Inc.

Stocks and bonds are the two main classes of assets investors use in their portfolios. Stocks offer an ownership stake in a company, while bonds are akin to loans made to a company (a corporate bond) or other organization (like the U.S. Treasury). In general, stocks are considered riskier and more.

There are 66 long-term portfolios in all, designed to suit investors with varying proximities to retirement and preferences. There are also four portfolios geared toward short- or intermediate-term goals. The Bucket portfolios are designed for people who are already retired, while the Saver portfolios are meant for people who are still working and accumulating assets for retirement. There are portfolios composed of traditional mutual funds as well as exchange-traded funds. Each portfolio series has Aggressive, Moderate, and Conservative versions. Meanwhile, the Conservative Bucket portfolios, with the lightest stock exposure, logged smaller gains, albeit respectable in absolute terms. Apart from that obvious conclusion that risk-taking was rewarded, there were other key takeaways from the recent performance and holdings review, as follows. Three years is a fairly short time period by which to judge, and previous studies have established the tendency for pure, capitalization-weighted equity index funds to outperform in rising equity markets. As a result, such funds have logged higher gains than their actively managed large-cap blend funds over the past three years. But a handful have. Yet even as basic, low-cost total market trackers proved hard to beat, a short list of actively managed funds did manage to outperform over the period. Several of them hail from growth categories or lean more heavily toward strong-performing growth stocks than the broad market: It tends to lean toward the growth side of the Morningstar style box, and small-cap growth has been the best-performing square over the past three years. As a tax-managed fund, it downplays dividend payers, which gives it a bit of a growth bias. Yet some of the total market index beaters were less obvious choices to outperform. Foreign stocks have badly trailed U. Its source of strength was twofold: Additionally, the fund has gotten a boost from its stake in U. Yet even as total market trackers and growth-leaning funds managed to log exceptionally strong gains during the period, investors should consider how difficult the strong recent gains will be to repeat. Microsoft currently earns a 4-star rating, while Apple and Amazon each earn 3-star ratings. That said, investors in growth-leaning funds should take care to balance them with value holdings, as I have in my model portfolios that own them. Moreover, revisiting baseline asset-class exposures is crucial, especially for people who are within 10 years of retirement. One other striking takeaway was that the tax-efficient portfolios--both the Bucket portfolios geared to retirees as well as the Saver portfolios--nearly universally performed as well as or better than the portfolios created without regard for tax efficiency. There were several key reasons for that. On the equity side, an emphasis on strong-performing core index funds, ETFs, and tax-managed funds was a boon. On the bond side, the tax-efficient portfolios benefited from the fact that their municipal bond holdings performed nearly as well as taxable bond funds with similar credit profiles and levels of interest-rate sensitivity over the past three years. That was a function of a strong economy and decent to improving municipal finances. In more typical market environments, the lower yields on municipal bonds will tend to lead to a lower return than a taxable bond of the same credit quality and maturity, because the municipal bond has a tax-efficiency advantage. Yet I noticed that there was one spot where holding foreign securities did provide a boost--albeit a small one. In other words, it captures changes in bond yields and prices, but not in the value of foreign currencies relative to the dollar. That fund has been showing the benefits of international-bond diversification, nearly doubling the return of the Bloomberg Barclays Aggregate Bond Index over the past three years. Given that inflation was generally benign during the period and that bonds have historically served as shock absorbers during periods of equity losses, that seems reasonable to me. Holding some cash reserves helps supply living expenses if losses present themselves. It also provides a valuable intangible--peace of mind in periods of extreme market volatility. Christine Benz does not own shares in any of the securities mentioned above.

Chapter 2 : 3 roles bonds can play in a portfolio | BlackRock Blog

By Russell Wild. The following example investment portfolios are all based on real, live clients who with bond portfolios. All names and most identifying information have been changed to protect the identities of these good people.

Since ordinary brokerage commissions apply for each buy and sell transaction, frequent trading activity may increase the cost of ETFs. Diversification does not guarantee a profit or eliminate the risk of loss. Duration is a measure of the sensitivity of the price -- the value of principal -- of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. The funds do not seek any predetermined amount at maturity, and the amount an investor receives may be worth more or less than the original investment. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The funds are subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the funds. Investments focused in a particular sector are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments. The funds are non-diversified and may experience greater volatility than a more diversified investment. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. The risks of investing in securities of foreign issuers can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues. Income generated from the funds is based primarily on prevailing interest rates, which can vary widely over the short- and long-term. As such, investments in the funds may be less tax efficient than investments in ETFs that create and redeem in-kind. For example, at times the funds may make distributions at a greater or lesser rate than the coupon payments received, which will result in the funds returning a lesser or greater amount on liquidation than would otherwise be the case. The rate of fund distribution payments may affect the tax characterization of returns, and the amount received as liquidation proceeds upon fund termination may result in a gain or loss for tax purposes. BulletShares High Yield ETFs The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods. BulletShares Emerging Markets ETFs Non-investment grade securities may be subject to greater price volatility due to specific corporate developments, interest-rate sensitivity, negative perceptions of the market, adverse economic and competitive industry conditions and decreased market liquidity. The funds may invest in privately issued securities, including A securities which are restricted i. The liquidity market for Rule A securities may vary, as a result, delay or difficulty in selling such securities may result in a loss to the fund. The funds may hold illiquid securities that it may be unable to sell at the preferred time or price and could lose its entire investment in such securities. Issuers of sovereign debt or the governmental authorities that control repayment may be unable or unwilling to repay principal or interest when due, and the fund may have limited recourse in the event of default. Without debt holder approval, some governmental debtors may be able to reschedule or restructure their debt payments or declare moratoria on payments. Click register to sign up for the webinar!

Chapter 3 : Personal Share Portfolios

A portfolio is a grouping of financial assets such as stocks, bonds, commodities, currencies and cash equivalents, as well as their fund counterparts, including mutual, exchange-traded and closed.

Thinkstock By Nellie S. Not so long ago, they loved bonds, which presented them with three decades of falling yields and rising prices. Interest rates remain at historically low levels, and to get extra yield, investors must take extra risks. Barclays Aggregate Bond index, a broad measure of U. Other sectors swung even more: Long-term government bonds, after losing But developing-markets debt sank 7. Through it all, though, some sectors have sparkled. And high-yield, or junk, bonds earned 6. As such, buying an index fund that captures the entire U. Advertisement Putting aside the January drop in yields much of it due to investors buying high-grade bonds to escape turmoil in emerging markets , chances are good that interest rates will resume their climb before long. Our portfolios yield from 2. Three of our portfolios hold only exchange-traded funds; the minimum for an ETF is the price of one share, plus commission. Before investing in our models, decide how much of your portfolio you want in bonds. Then match your objectives as best you can with those suggested in our model portfolios. If necessary, tweak the allocations to meet your tolerance for risk. Baird, a Milwaukee investment firm. Keep in mind that where you hold your bonds matters, too. Because interest payments on most fixed-income securities are taxed as ordinary income, money managers advise holding taxable bonds in a tax-deferred account, such as an IRA or a k. Interest from debt issued by states and cities is generally exempt from federal income taxes and may be exempt from state and local income taxes, too. Trading Yield for Safety These are for investors who may not be able to tolerate big losses in their bond portfolios. Or they may hold bonds to hedge against falling stock prices. To do that effectively, says Jeff Moore, a bond-fund manager at Fidelity, you need to buy what generally goes up when stocks go down. That means a combination of intermediate-term U.

Chapter 4 : Buy Bonds | Fixed Income | E*TRADE

Top 4 strategies for managing a bond portfolio. By Nick K Share. For the casual observer, bond investing would appear to be as simple as buying the bond with the highest yield.

The best foundations for a solid portfolio Successful long-term savings plans need the right balance between shares, bonds and other investments. Dipping a toe into the stock market unaided can be a worrying prospect, fraught with the risk that one wrong step could undo years of saving. Luckily, there are ways to protect against this nightmare scenario â€" and they work for both new and seasoned investors alike. How to build the perfect investment portfolio By creating solid foundations for your investment portfolio, you can almost guarantee to prevent serious losses, while giving your fund ample opportunity to grow. The key is to buy a mixture of different types of investment rather than putting all your money in shares. For example, a very basic portfolio split half and half between shares and bonds and held for five years would have protected investors from all but the smallest losses in recent decades, research by JP Morgan found. The bank looked at all five-year periods, starting at monthly intervals, since and found that the biggest loss was 1pc a year, or a little more than 5pc in total. By contrast, anyone who invested entirely in shares would have seen a maximum annual loss of 7pc over five years â€" a much more significant combined loss of 42pc after compounding. Anyone holding this simple mixed portfolio for 10 years would never have lost money since , the research found, no matter which month they started in â€" even if it was just before a big stock market crash. This is not to say that a portfolio consisting of 50pc shares and 50pc bonds is the right one in all circumstances or for all investors. But it does illustrate the importance of considering the mix of investments in your pensions, Isas or other long-term savings plan. So how do you go about choosing the right building blocks of a portfolio that suits your needs, ambitions, tolerance for setbacks and the amount of time you have to save? The key thing to remember is that building such a portfolio is a two-stage process. The first â€" building the foundations, if you like â€" is to decide on the right mix of the different types of investment. The main ones are shares and bonds, although some investors also want to own property-related assets or more esoteric investments such as commodities or precious metals. Then second phase is choosing which specific shares, funds, bonds and so on to buy. Only once you have built the foundations do you have an element of freedom in picking your favoured investments, without taking on too much risk. The simplest way of handling this problem is to leave it to an expert. There are several ways to do this, each with its pros and cons. Some fund managers handle both stages of building a balanced investment portfolio. You can also leave future changes to the asset mix to the manager, who will continuously monitor the make-up of the fund in response to changing economic circumstances. The main disadvantage is the lack of tailoring the portfolio to your own circumstances, such as tolerance for risk and investment time frame. Carl Lamb of Almary Green, an advisory firm, said: They are useful for diversifying away from a pure equity fund, to allow fund managers some flexibility as to how they can adapt to changing markets. The Fidelity fund, managed by Ian Spreadbury, currently has about 30pc of its money in bonds, mostly British government gilts, with much of the remainder in dividend-paying shares such as GlaxoSmithKline, BT and tobacco companies. The fund has risen by 67pc over the past five years, according to FE Trustnet, the fund analyst, while the total annual charge is 1. About 60pc of the fund is invested in global shares, hence the name, although these holdings are heavily weighted towards Britain and America; 40pc is in UK bonds. The fund imposes total annual charges of 0. A variation on this approach is so-called multi-manager funds, also known as funds of funds. Here the overall manager still aims for a mix of assets, but achieves the balance by buying a variety of funds rather than individual shares and bonds. This way you are not entrusting all decisions â€" or both stages of the portfolio-building process â€" to one individual; he or she handles only the first phase. But the disadvantage is the additional layer of charges, which will typically be more than 1pc a year, on top of the fee charged by the main fund. Another way to leave the decisions to others is to use ready-made portfolios constructed by services such as Nutmeg and Rplan. Here you specify how much risk you are prepared to take and are offered a portfolio designed for that level of risk tolerance. None of the above methods produces a bespoke portfolio tailor-made to your individual requirements. If this is what you want, you can either build your own or pay a financial adviser or discretionary wealth manager to do it for you. Or build your own from scatch Brian Dennehy of Dennehy Weller, another advisory firm, suggested the following as a simple rule of thumb for constructing portfolios. The percentage of your money in the low-risk bucket matches your age, so a year-old should have 60pc of the total in that bucket. Between 5pc and 10pc would go in the high-risk bucket. But with bond markets moving very fast, investors have to realise that bond prices can move up and down sharply too. For more information call or visit:

Chapter 5 : Top 4 Strategies For Managing A Bond Portfolio

Adjust your portfolio by age Given the current interest rate environment, Tai believes that "a more flexible approach" to the traditional age-based rules to bond allocation might be more appropriate.

Top 4 strategies for managing a bond portfolio By Nick K. Lioudis Updated January 11, â€” There are multiple options available when it comes to structuring a bond portfolio, and each strategy comes with its own risk and reward tradeoffs. The four principal strategies used to manage bond portfolios are: Passive, or "buy and hold" Index matching, or "quasi passive" Immunization , or "quasi active" For more on bonds, read our Bond Basics Tutorial. Passive Bond Management Strategy The passive buy-and-hold investor is typically looking to maximize the income-generating properties of bonds. The premise of this strategy is that bonds are assumed to be safe, predictable sources of income. Buy and hold involves purchasing individual bonds and holding them to maturity. Cash flow from the bonds can be used to fund external income needs or can be reinvested in the portfolio into other bonds or other asset classes. In a passive strategy, there are no assumptions made as to the direction of future interest rates and any changes in the current value of the bond due to shifts in the yield are not important. The bond may be originally purchased at a premium or a discount, while assuming that full par will be received upon maturity. The only variation in total return from the actual coupon yield is the reinvestment of the coupons as they occur. On the surface, this may appear to be a lazy style of investing, but in reality passive bond portfolios provide stable anchors in rough financial storms. They minimize or eliminate transaction costs , and if originally implemented during a period of relatively high interest rates, they have a decent chance of outperforming active strategies. Need more insight on buy and hold strategies? One of the main reasons for their stability is the fact that passive strategies work best with very high-quality, non- callable bonds like government or investment grade corporate or municipal bonds. Like the stated coupon, call and put features embedded in a bond allow the issue to act on those options under specified market conditions. To learn more about options, read our Options Basics Tutorial. This is good for the lender, but bad for the borrower. Bond Laddering in Passive Investing Ladders are one of the most common forms of passive bond investing.

Chapter 6 : The best foundations for a solid portfolio - Telegraph

Bond and Preferred Share Portfolio Featuring A portfolio that's customized for each investor on an individual security basis, with a focus on mostly investment-grade bonds and preferred shares issued by governments, corporations and other entities.

Email Matt reminds investors not to get distracted and neglect the objective of their fixed income investments. As many investors know, bond investing is not easy. In a previous blog post I had briefly touched upon how to sidestep the most commonly made mistakes. Today I want to dig more into the first of the three mistakesâ€"forgetting what your fixed income investment is for. Why do investors own bonds anyway? After all, we know bonds generally offer lower returns than stocks over time. Investors I talk to point to three things: If an investor holds different types of investments, their gains and losses can potentially offset each other and make the investment experience smoother. Their correlation over the past 10 years is 0. Investors can clearly see diversification in action when equity markets are down and bond investments are there to potentially provide stability to the portfolio. Prices tend to go up more for bonds with higher levels of interest rate risk. For this reason, fixed income investments that have medium to high levels of interest rate risk may provide better diversification to equities than investments with lower levels of interest rate risk. This is a very important point, and one that is often missed by investors: If you hold bonds to diversify equity risk, interest rate risk is key. Generate income Income is a bit of an easier one. Most bonds and bond funds pay income on a regular basis, and many investors look for income from their bond portfolio. As a rule of thumb, bonds that carry higher levels of risk pay higher levels of income. The two most common forms of risk in fixed income markets are interest rate risk and credit risk , and most bond investments carry one or both of these risks. Short-term Treasuries have very little credit risk and interest rate risk, and as a result they pay a low level of income. An intermediate bond with a medium level of credit and interest rate risk generally pays a higher level of income. A high yield bond may only have medium interest rate risk, but its high credit risk could mean high income. Remember, there is no free lunch here. To seek income, investors have to be willing to take on risk. Preserve principal Investors who want to use bonds to help preserve the principal of their investments do not want to see prices drop under any market conditions. The prices of short-term Treasuries such as T-bills have historically been more stable than many other stock and bond investments, as a result they tend to be a popular choice for preserving principal. T-bills have low levels of both interest rate risk and credit risk. In fact, when thinking about principal preservation, it is most important to keep both types of risk in mind. An investor is looking for an investment that preserves principal, but still hopes for some income from their investment. Bank loans might offer a high yield and stand out from a list of potential low interest rate choices. Bank loans are often similar to high yield bonds in that they can carry a high level of credit risk. While they may fare well in a rising rate environment, they would likely fall in price should there be a credit event. Mix and match Now that we have covered each of the three objectives in more detail, here is the hard part: Many investors want their portfolios to do more than one thing, but these objectives are not always compatible with each other. A simple way to think about this is in terms of risk. Diversification and income lend themselves to risk taking, while preserving principal does not. As a result, some combinations might work better than others. Bond investing goals Income and diversification A number of medium- to longer-term maturity investments may work in this scenario. Taking on interest rate risk could provide income and improve diversification. Investors may also want to add credit risk to seek more income potential. Income and principal Things are a little more challenging with this combination. For most income targets, investors would need to consider taking on some interest rate or credit risk, which could put the principal at risk. Of course, this was not always the case. During periods when interest rates were higher, it was possible to get a modest amount of income without taking on a lot of risk. As discussed above, the key to a bond investment that helps to diversify equity investments is interest rate risk. And taking on interest rate risk increases the chance of loss of principal if interest rates rise. This combination is more difficult to achieve. More than ever, it makes sense to hold realistic expectations. Be mindful and precise with what you want your fixed income investment to do.

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Remember your bond investing goal.

Chapter 7 : Lessons From the Model Portfolios

With the other two-thirds of her bond portfolio ($, or so), she should devote equal allocations to intermediate-term traditional Treasuries, short-term Treasuries, long-term investment-grade corporate bonds, intermediate-term investment-grade corporate bonds, international bonds, and high-yield bonds.

When using iShares ETFs, investors can build a three-fund portfolio using: In practice, the importance and magnitude of the difference is a subject of debate. Vanguard perplexes investors by offering two virtually interchangeable international stock market index funds: If you will have difficulty meeting these minimums, you may want to consider an all-in-one single-fund portfolio until you accumulate enough that this is not an issue. It includes "USD-denominated, taxable bonds that are rated either investment grade or high-yield. Combining domestic and international stocks The relative percentage of domestic and international stocks is a subject of intense discussion in the forum. One sensible option is to hold domestic and international stocks in the same proportions as they represent in the total world economy. This option is recommended by Burton Malkiel and Charles Ellis, both of whom have longstanding ties to Vanguard, in their book The Elements of Investing. Such a two-fund portfolio would use these funds: By adding an international stock fund, one could create a three-fund portfolio with two funds. Adequacy of a three-fund portfolio One Marketwatch article [4] quotes various non-Boglehead commentators as saying such things as "You can make it really simple, be well-diversified, and do better than two-thirds of investors" and "That three-pronged approach is going to beat the vast majority of the individual stock and bond portfolios that most people have at brokerage firms Dogu describes this approach and comments "With only these three funds Vanguard Total Stock Market Index fund, Vanguard Total International Stock Market Index fund, and the Vanguard Total Bond Market fund , investors can create a low cost, broadly diversified portfolio that is very easy to manage and rebalance Some investors may be uncomfortable with holding only three funds and will question whether they are truly diversified. S bond market fund. Others would argue that the evidence for superiority of slice and dice , " small value tilting ," and inclusion of classes like REITs is too strong to ignore. As of when this is being written, bond interest rates are near historic lows and there is a good deal of buzz to the effect that the "thirty-year bull market in bonds has ended" and that investing strategies that have worked for decades should be changed to reflect new realities. Should the three-fund portfolio be modified? No definitive answer can be given to this controversial question, but we can sketch out some of the prevalent and conflicting opinions on the matter. In , Vanguard altered the composition of its Target Retirement funds; from to , most of them were literally three-fund portfolios as described here. Nothing Vanguard has published would lead one to believe that this is a big change or that it will have a big effect. Some well-informed Bogleheads make a strong case that the "bond" component of a three-fund portfolio might well be filled with non- brokered bank CDs instead of a traditional bond fund. For the record, it should be stated that Burton Malkiel and Charles Ellis, in the edition of their book Elements of Investing, made a controversial and much more radical suggestion, which shocked many forum members. But, because they were early champions of indexing, each with long associations with Vanguard, their suggestion should be noted. Vanguard funds in this category include the Target Retirement funds, the LifeStrategy funds; perhaps the actively-managed Wellington and Wellesley funds would qualify, too. On the one hand, a three-fund portfolio involves a do-it-yourself aspect that makes it more complicated than using an all-in-one fund. For example, because different assets grow at different rates, any investor who chooses a do-it-yourself approach needs to " rebalance " occasionally â€" perhaps annually â€" in order to maintain the desired percentage mix. The advantages are small but meaningful to some, and include: Farrell, who writes MarketWatch columns about various simple portfolios. Other variations A three-fund combination can serve as the core of a more complex portfolio, where you add a small play money allocation or a tilt to some corner of the market that interests you. He stated that "It is no longer necessary to own large portfolios. Now, with only four funds, it is possible to own all the securities in every asset-class, style, and cap-size, in exact proportion to their market weight. These four funds are: The International Index tracking the EAFE index does not include emerging market stocks, Canadian stocks, and has minimal exposure to international small cap stocks. This implementation creates a six-fund portfolio. Note that the international indexes being tracked by the funds do not include Canadian stocks nor market weightings of small cap stocks. Rowe Price International Index Fund is a developed market international index fund. The fund does not include emerging market stocks or Canadian stocks. Small cap international stocks make up only a minimal part of the portfolio. In addition, index purists should take note that the US Bond Enhanced Index Fund utilizes an active management component. The investment manager has the authority to adjust certain holdings versus the benchmark index, which could result in the fund being marginally underweight or overweight in certain sectors, or result in the portfolio having a duration or interest rate exposure that differs slightly from those of the index. Also, the I fund tracking the EAFE index does not invest in emerging market stocks or Canadian stocks, and has minimal exposure to small cap international stocks.

Chapter 8 : What Is the Difference Between Bonds & Equity in a Stock Portfolio? - Budgeting Money

The idea that stocks are riskier than bonds is widely accepted at face value in finance and investing. Stock prices tend to swing both higher and lower, and more frequently, than bond prices, and.

Tab 1 of 9 Overview Bonds are a core element of any financial plan to invest and grow wealth. If you are just beginning to consider investing in bonds, use this section as a resource to educate yourself on all the bond basics. In this section you will learn: A bond is a debt security , similar to an I. When you purchase a bond, you lend money to the issuer of the bond. That issuer could be a corporation, state, city or federal government, a federal agency or other entity. In return, the issuer agrees to pay you a specified rate of interest over the life of the bond and to repay the face value of the bond the principal when it reaches maturity â€" that is, the date the bond comes due. There is a wide range of bonds available to investors, such as U. Treasury securities, municipal bonds , corporate bonds, mortgage- and asset-backed securities, federal agency securities and sovereign bonds. Market practices described here apply to the U. Many financial professionals recommend that investors maintain a diversified investment portfolio of bonds, stocks and cash in varying percentages, depending on your circumstances and objectives. A financial professional can explain the available options, taking into account your investment goals, income needs and risk tolerance. Typically, bonds pay interest semiannually, providing a predictable stream of income. Many people invest in bonds for the interest income and to preserve their capital investment. Understanding the role bonds play in a diversified investment portfolio is especially important for retirement planning, as traditional defined-benefit retirement plans pensions have increasingly been replaced by defined contribution programs, such as k plans and Individual Retirement Accounts IRAs. These plans offer greater individual freedom and a wider range of investment options, but require investors to be more self-reliant in planning their retirement. Tab 4 of 9 What factors should you consider when investing in bonds? Conversely, lower levels of risk offer lower returns. That may mean you sacrifice the potential for higher returns in favor of a safer investment. There are a number of key variables that comprise the risk profile of a bond: Together, these factors â€" as well as others discussed with your financial professional â€" determine the value of a particular bond and whether it might be an appropriate investment for you. PRICE The price of a bond is based on variables like interest rates, supply and demand, liquidity , credit quality, maturity and tax status. Bonds traded in the secondary market , however, fluctuate in price in response to changing factors such as interest rates, credit quality, general economic conditions and supply and demand. When the price of a bond increases above its face value, it is said to be selling at a premium. When a bond sells below face value, it is said to be selling at a discount. Fixed rate bonds carry an interest rate that is established when the bonds are issued expressed as a percentage of the face amount with periodic interest payments, typically semiannual. Some issuers, however, prefer to issue floating rate bonds, the rate of which is reset periodically in line with the then prevailing interest rates on Treasury bills , the London Interbank Offered Rate LIBOR , or other benchmark interest-rates. The third type of bond does not make periodic interest payments. Instead, the investor receives one payment at maturity of the face amount. Known as zero coupon bonds, they are sold at a substantial discount from their face amount. Valuation calculations may vary depending on the features of the bond. Generally, bond terms range from one year to 30 years. Term ranges are often categorized as follows: Conversely, longer-term bonds typically provide greater overall returns to compensate investors for greater pricing fluctuations and other market risks. Two typical types of redemption features are: Call Provision Bonds may have a redemption, or call, provision that allows or requires the issuer to redeem the bonds at a specified price and date before maturity. For example, bonds may be called when interest rates have dropped significantly from the time the bond was issued. Before buying a bond, always determine if there is a call provision. If there is, be sure to consider the yield to call as well as the yield to maturity. Put Provision A bond may have a put provision, which gives the investor the option to sell the bond to the issuer at a specified price and date prior to maturity. Typically, investors exercise a put provision when interest rates have risen so that they may then reinvest the proceeds at a higher interest rate. Since a put provision offers protection to the investor, bonds with such features usually offer a lower annual return than comparable bonds without a put to compensate the issuer. Convertible bonds contain provisions on how, when the option to convert can be exercised and at what price. Convertibles offer a lower coupon rate because they have the stable return of a bond while offering the potential upside of a stock. In purchasing mortgage-backed securities, for example, it is important to consider that homeowners often prepay mortgages when interest rates decline, which may result in an earlier than expected return of principal, reducing the average life of the investment prepayment risk. If mortgage rates rise, the reverse may be true: YIELD The yield is the return earned on a bond, based on the price and the interest payment received. Yield is usually quoted as a percentage. Sub-units of percentages are called basis points. One basis point is equal to one one-hundredth of a percentage point or 0. There are three types of bond yields: Yield to maturity is the total return received by holding the bond until it matures and is typically quoted as an annual rate. This figure is comman to all bonds and enables you to compare bonds with different interest rates, or coupons. Yield to maturity equals all the interest you receive from the time you purchase the bond until maturity. This includes all interest accrued at the time you purchased the bond, plus any gain if bought at a discount or less any loss if you bought at a premium of principal. It is also typically quoted as an annual rate. Yield to call is calculated the same way as yield to maturity, but assumes that a bond will be called on the call date rather than run until the maturity date and that the investor will receive the face value of the bond plus any gain if bought at a discount or less any loss if you bought at a premium of principal. Be sure you know the yield to maturity and the yield to call, if applicable, on any bond you are considering to purchase. Because of these fluctuations, the value of a bond will likely be higher or lower than its original face value if you sell it before it matures. Generally, bond prices and interest rates tend to move in opposite directions. When interest rates rise, prices of outstanding fixed coupon bonds fall and vice versa. Prices of fixed coupon bonds move up and down inversely with interest rates to bring the yield of those bonds into line with the coupon rates of new bonds being issued. What factors should you consider when investing in bonds? Investors typically expect to be compensated for taking that extra risk. This relationship can be demonstrated by drawing a line between the yields available on similar bonds of different maturities, from shortest to longest. Such a line is called a yield curve. A yield curve can be drawn for any bond market, but the most common is for the U. Treasury market, which offers bonds of identical credit quality for various terms. By watching the yield curve over a period of time, as reported in the financial media and other sources online, you can gain a sense of where the market perceives interest rates to be heading â€” an important factor that could affect the price of bonds. This curve shape is considered normal because, usually, the longer an investment is at risk, the longer an investor is generally required to hold it. The yield curve is said to be steep if the yields on short-term bonds are relatively low when compared to long-term issues. This means you can obtain significantly increased yield â€" that is, interest income â€" by buying a bond with a longer maturity than you can with a shorter maturity bond. On the other hand, the yield curve is flat if the difference between short- and long-term rates is relatively small. This means that there is little reward for owning longer-dated maturities. An inverted yield curve is rare and usually suggests that investors expect interest rates to decline in the future with an outsized demand for longer dated issues or short term rates are unusually high, for example, rates in a credit crunch. As a bond investor, you should know how bond yields and prices are linked to economic cycles and concerns about inflation and deflation. As a general rule, the bond market, much like the economy itself, benefits from steady, sustainable growth rates. Such moderate economic growth is beneficial for the financial health of governments, municipalities and corporate issuers which, in turn, strengthens the credit worthiness of those bonds you may hold. Steep rises in economic growth can lead to higher interest rates because, in response, the Federal Reserve may raise interest rates in order to slow down growth and prevent inflation. Since rising interest rates push bond prices down, the bond market generally reacts negatively to reports of strong, and potentially inflationary, levels of economic growth indicated by higher-than-expected jobs growth or housing start numbers. The converse can also be true: Defaults can also occur for failure to meet obligations unrelated to payment of principal or interest, such as reporting requirements, or when the issuer faces a material problem, such as bankruptcy. A bond is a type of debt obligation, so bondholders are creditors of the bond issuer. Therefore, bondholders will have priority rights to assets over equity holders when receiving a payout from the liquidation or restructuring of an issuer.

The type of bond you hold will determine your status as a creditor. Secured bonds are backed by collateral. Types of collateral used to secure a bond can include cash, other types of securities, or physical assets such as real estate or equipment. If the bond issuer defaults, the secured debt holders have first claim to this collateral. Unsecured bonds are not backed by any specific collateral. In the event of a default, bond holders take their place as priority creditors of the issuer, as described above. Unsecured debt will generally offer a higher interest rate than those offered by secured debt due to a higher level of risk. Within the category of unsecured bonds, some may be senior bonds and have priority in making claims over those who hold subordinated bonds. A subordinated bond will typically offer a higher interest rate due to the higher level of risk. Treasury bonds , which are backed by the full faith and credit of the United States government, to bonds that are below investment-grade and considered speculative, such as a bond issued by a start-up company or a company in danger of bankruptcy. Since a bond may not reach maturity for years to come, credit quality is an important consideration when evaluating investment in a bond. When a bond is issued, the issuer typically provides details as to its financial soundness and creditworthiness. You should consult multiple sources before making a decision to invest in a bond. Lower ratings suggest a bond that may have a greater risk of default. It is important to understand that the high interest rate that generally accompanies a bond with a lower credit rating is being provided in exchange for the investor taking on the risk associated with a higher likelihood of default.

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Chapter 9 : Three-fund portfolio - Bogleheads

A portfolio of stocks and bonds divided 10% stocks and 90% bonds generated its highest twenty-year rolling return between and when it compounded by % per annum. It experienced its lowest return between and when it compounded by % per annum.

A concentrated portfolio of public companies with shares that we believe are undervalued. Objective To acquire ownership stakes in companies with attractive economics at favourable prices. Suitable for Investors seeking higher returns when compared to income-oriented portfolios and willing to tolerate more risk. Managed through three Bridgeport pooled funds with each fund containing approximately 10 to 15 securities: The portfolio allocates capital to third party investment managers in order gain exposures to these unique asset classes. Objective To preserve capital and generate income, with low correlation to traditional equity and debt markets. Suitable for Investors seeking a diversified source of investment income that has low correlation to traditional markets. Managed through one Bridgeport pooled fund containing a wide range of income-producing assets that offer good quality collateral. Objective To preserve capital and generate income. Suitable for Investors with moderate risk tolerance, seeking less volatile returns than those of equity portfolios. Strategic Income Portfolio Featuring A concentrated mix of investment-grade and non-investment-grade corporate bonds, convertible bonds, preferred shares and dividend-paying common shares. The majority of the portfolio is held in U. This portfolio is suitable for international investors who are seeking exposure to U. Objective Primarily to preserve capital and generate income. Suitable for Investors with a low tolerance for capital loss. The fund aims to provide investors with exposure to a diversified set of commercial claims across stages and types of litigation, geography, industry and plaintiff law firms. This is achieved by investing in a selection of top-litigation finance funds. For more information on Balmoral Wood, please click here. Bridgeport Asset Management is an independent, Toronto-based, investment counselling firm that manages discretionary investment portfolios for high net worth investors using a value-oriented approach. I also acknowledge that: If a user clicks YES then they gain access through the link to the documentation, otherwise they would not.