



## HOW TO NARROW DOWN THE BOND UNIVERSE

---

When investors say the bond market is "large", they are referring to the fact that the U.S. market has over \$46 trillion in outstanding debts that are converted into bonds as well as bond funds. So, how do you know where to start?

1. Determine the allocation need you are trying to meet, which may include:
  - **Emergencies, short-term spending or buffer allocation:**
    - Money market accounts
    - Short-term bills
    - CDs



Investments for this type of allocation needs to be focused on safety (less volatility) and quick access to withdraw money.

- **Defined dates for spending:**
  - Bonds
  - Defined-maturity bond funds
  - CDs
- **Ongoing allocation:**
  - Intermediate-bond funds
  - Bond ladders
- **Tax Efficiency:**
  - Municipal bonds
- **Higher Income:**
  - High-yield bonds and preferred stocks



Both high-yield bonds and preferred stocks come with more risk but could generate higher revenue in the long-run.





## HOW TO NARROW DOWN THE BOND UNIVERSE

---

### 2. Choose between investing in individual bonds versus bond funds

#### Individual Bonds

- Have established maturity date and know return at purchase (assuming no default)
- Can be used to bond ladders (bonds that mature on different dates)
- Frequently sold in lots of \$100,000 or more
- Often tougher to buy in small amounts and build a diversified portfolio



Individual bonds usually make semi-annual interest payments. Bond funds usually make monthly distributions that can be paid directly or reinvested into the fund to compound returns.

#### Bond Funds

- Provide easy access to a diversified portfolio
- Easier to quickly buy and sell
- Downsides include no maturity date, ongoing expenses, no control over taxes or timing of income

#### Defined maturity bond funds

- Provide access to a diversified portfolio and mature on a pre-defined date
- Can be laddered
- Lack customization and come with ongoing expenses
- Only offered by iShares, Invesco and Fidelity



American  
Association of  
Individual  
Investors





## Selecting and Managing Your Investments

# HOW TO NARROW DOWN THE BOND UNIVERSE

---

### 3. Decide if your allocation calls for cash or cash equivalents

#### **Treasury bills:**

- These bills have short maturities
- Treasury bills can be laddered

#### **CDs**

- Seek out FDIC insured
- Can be laddered
- Be aware of penalties that may incur for early withdrawal

#### **Money market funds**

- Frequently, but not always pegged to a NAV of \$1, can offer higher interest rates

#### **Savings accounts**

- FDIC insured if through bank
- SIPC through brokerages



Cash equivalents are short-term commitments with temporarily idle cash and are easily convertible into a known cash amount aka liquid.

#### **Disclaimer:**

AAII is not a registered investment adviser or a broker/dealer. Readers are advised that articles are provided solely for informational purposes and should not be construed as an offer to sell or the solicitation of an offer to buy securities. The opinions and analyses included herein are based on sources believed to be reliable and written in good faith, but no representation or warranty, expressed or implied, is made as to their accuracy, completeness, timeliness, or correctness. Neither we nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or any delay or interruptions in the transmission thereof to the users. All investment information contained herein should be independently verified.

Past performance is no guarantee of future results. Investment information provided may not be appropriate for all investors. Investment information is provided without consideration of your financial sophistication, financial situation, investing time horizon, or risk tolerance. Readers are urged to consult with their own independent financial advisers with respect to any investment.



American  
Association of  
Individual  
Investors

