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.

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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

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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.