The Importance of Bonds in Your Account

Tom Mullooly: In episode 71 we talk about the importance of bonds in your account.

Welcome to the Mullooly Asset Show. I'm your host Tom Mullooly and this is episode number 71. I can't believe we've done 71 of these episodes. That's crazy because we've done a bunch other videos that are on our website.

They didn't even make it to our YouTube channel.

We have a lot of chart basics that are on our website if you want to learn more about the basics of charting, point and figure charting, you can look them up. We have an entire series.

So Tim, what are we going to be talking about today?

Tim: With the stock market going up, do I really need bonds in my account?

Tom Mullooly: It's amazing how great these questions are and they're very timely. We're getting calls and questions from investors about why do we need to own bonds if the market's going up 15 or 20%?

Why should I even have these kind of things in my account? Are they really suitable or appropriate? Yes, they're very suitable and they're very appropriate for a lot of investors but not all of them.

If you're an aggressive investor or if you're a young investor, bonds may not be appropriate for you. But for almost everyone else, it's worth taking a look at these things, and here's why.

You're going to have the safety, that’s not the right term to use, but you're going to have peace of mind when you have a certain portion of your investment account in bonds if you're a moderate investor and certainly if you're a conservative investor. Here's why.

When the stock market starts going down and someday it will, when the stock market starts to go down, the bonds in your account are hopefully going to provide some kind of bumper or cushion, and so not only do you have the cushion that's in your account but you're also going to have that extra peace of mind knowing that, you know, if 50% of your account is in bonds, that means only 50% of your account is exposed to the risks of the stock market.

Now, that's important but it's also important on the upside too because some clients that own bonds are saying, "Hey, I see the stock market going up 15 or 20% this year in 2017. How come we're not doing so well?"

And we have to remind them that for these cushions that we have to protect us on the downside, we also pay the price on the upside. So we're going to have limited upside in the market in return for a little bit of cushion on the downside.

One of the other things that you need to remember when you own bonds is that for the better part of 30 years, people made money in bonds.

Interest rates were going down all the time and so there was a potential for capital gains in bonds, but interest rates haven't really gone anywhere in the last few years, the last three or four years.

Everybody's been kind of predicting that interest rates are going to start going up at some point. Some of them feel it's going to going up in a meaningful way. When bonds go up, the prices of your bonds don't appreciate.

In fact, they can sometimes go down, but that also interacts with what's happening in stocks.

So there's been a lot of folks who have made money in bonds over the last 30 years. That may not be the case going forward but we can't tell. So, the reason why you want to own bonds in your account is because it's going to provide bumpers.

You know, when you go to the bowling alley and you see the little kids playing bowling, and they put the bumpers in the gutters. Same thing for some of our moderate and conservative clients.

It's going to help cushion any kind of potential drops that we may see in the future from the stock market.

So, great question for episode 71. If you've got a question, get in touch with us. You may see it on a future video. Thanks for watching.