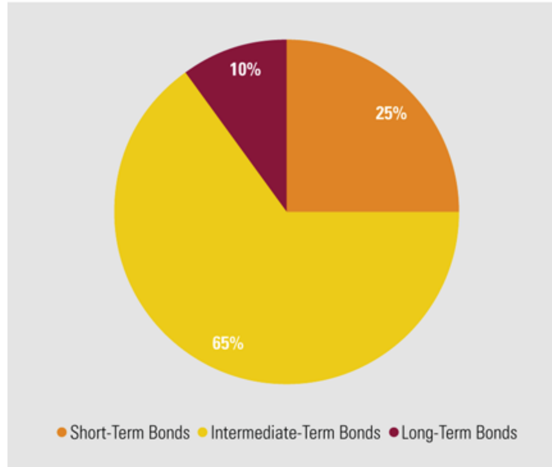
Investors Have Most of Their Money in Intermediate Bonds

- Most bond investors expect interest rates to increase as the Federal Reserve tapers its latest quantitative easing, bond purchase program and the economy continues its slow improvement.
- Since there is an inverse relationship between bond prices and interest rates, with long-term bonds having the strongest inverse relationship, excluding long-term bonds from your portfolio is likely the best course of action, a course COMPASS has followed.

The Fed has been slowing down its quantitative easing program, which would normally cause interest rates to rise. Long-term bonds tend to be more sensitive to changes in interest rates than intermediate- and short-term bonds. This is because investors want to be compensated for the higher risk and uncertainty that come with longer-term investments. Also, when interest rates start climbing, bonds already on the market have to compete with newer bonds that pay higher coupon rates.

As illustrated by the image, investors are aware of all this. As of December 2013, most of the assets allocated to fixed income were placed in intermediate-term bonds. This appears to indicate that most investors are risk-averse and avoid placing too large a share of their assets in long-term (more volatile) bonds.

Fixed-Income Allocations as of December 2013



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. U.S. government bonds may be exempt from state taxes and income is taxed as ordinary income in the year received. With government bonds, the investor is a creditor of the government. With corporate bonds, an investor is a creditor of the corporation and the bond is subject to default risk. Corporate bonds are not guaranteed.

Data: The chart is constructed based on total net asset data from funds in Morningstar's database. The analysis includes U.S. open-end mutual funds and exchange-traded funds but excludes money market funds and funds of funds. Data as of December 2013.

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