

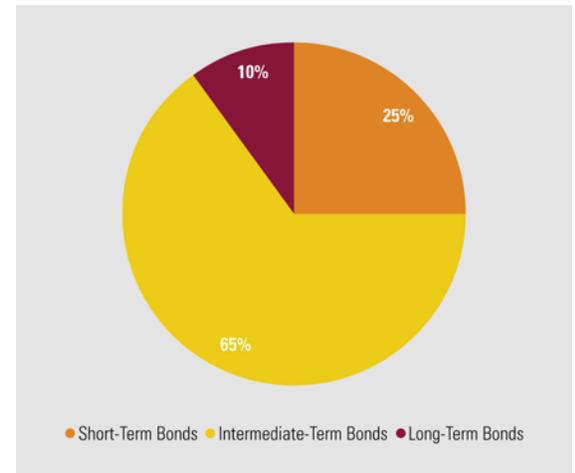
Investors Have Most of Their Money in Intermediate Bonds

- ▶ 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



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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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