The Stan Clark Financial Team's

PERSPECTIVES

An excerpt from "Perspectives" - Volume 3 - Issue 12

Economics and asset allocation

Why bother with bonds? Here are important reasons

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With interest rates so low, some investors say, "Why do we bother having bonds in your portfolio?"

Interest rates have been on a long-term decline in Canada and around the world. This has boosted past returns for bonds, which has been good. Remember, that when rates go down, bond prices go up. But with rates so low, they can't go down much more. So, any further upside will be limited.

Then why have bonds at all? The reason is we don't hold bonds *just* for return potential. There are two other and perhaps even *more* important reasons we hold bonds:

1. bonds provide valuable downside protection and
2. they provide for your short-term needs

The world is complex and full of surprises. No one knows for sure what will happen in the future. Our view is that the world economy is slowly recovering, and that inflation and interest rates will eventually rise. So, equities *should* do better than bonds. But what if we're wrong? While we are cautiously optimistic, there are big issues today that could derail the recovery. The impending fiscal cliff might not be resolved in the U.S. Europe is still facing sovereign debt concerns. China has a transitioning government dealing with a slowing economy. Suddenly, guaranteed bonds, despite low interest rates, seem pretty darn good! But the potential for stocks is so much higher.

The key is balance: How much should you have in bonds versus how much in stocks. This is your *asset mix* or *equity target*. Everyone is different, and everyone should have their own mix.

We determine a custom mix for all of our clients depending on their needs and risk tolerance. This way, we can provide a portfolio with an asset mix that provides downside protection, while having enough in stocks to meet each person's goals.

We also invest in bonds for your short-term needs. Money that you will require in the next few years should be in very safe investments such as cash or short-term bonds. This way you know for sure the money will be available when you need it. The worse thing that could happen is if you need money and you are forced to sell something at a bad price.

So, despite low interest rates, bonds still may play a critical role in your portfolio.

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To learn more about CIBC Wood Gundy, The Stan Clark Financial Team and the many ways we can help manage your wealth, please contact us by phone or by email as listed below.

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