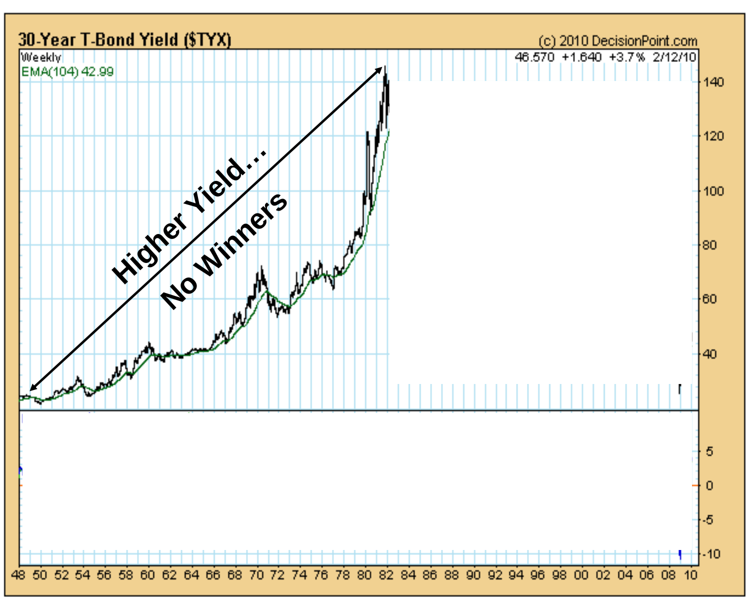
DANGER IN BONDS AND FIXED INCOME FUNDS

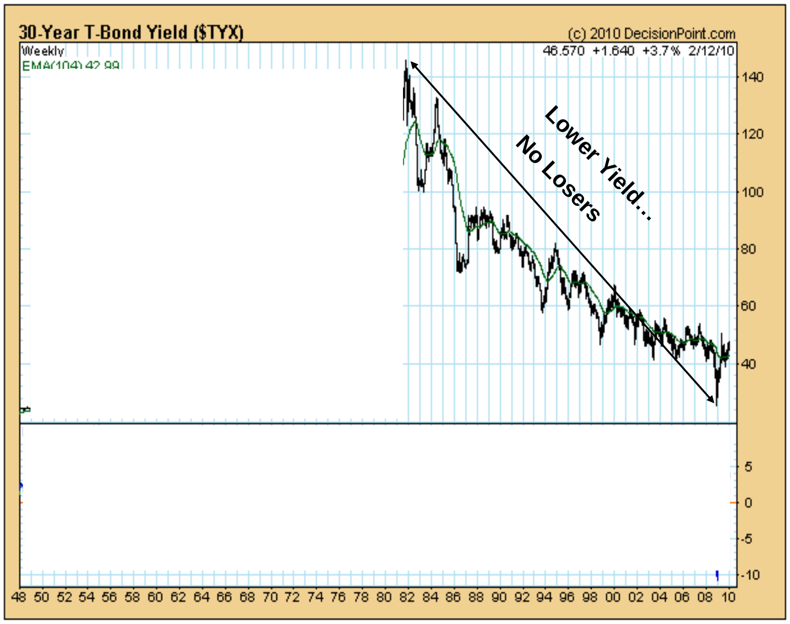
The charts below are worth a thousand words! A rise in interest rates will cause the prices of bonds and fixed income funds to fall in value.

The chart below depicts the 60+ year trend in the yield of the 30-year U.S. Treasury bond. Note that the yield steadily rose from the early-1960s level of 4% into the 1981 peak of more than 14%. From 1981 to the end of 2008, the yield fell to an all-time low of 2.5%.

The point of the chart below is to illustrate that the multi-decade uptrend in the rate of the 30-year Treasury bond produced a whole bunch of unhappy investors. Bond owners experience capital loss during periods of rising interest rates.



Following the spike in the rate of the 30-year Treasury bond to over 14% in 1981, a 27+ year bull market in bonds commenced with the bull market peak in bonds occurring in the 4th quarter 2008 as the yield fell to 2.5%. All bond buyers during this historic 27+ year bond bull market were winners, as treasuries delivered price appreciation in addition to the payment of their stated coupons.



Following the late 2008 low-water mark in rates, the rate of the 30-year Treasury bond rose by more than 2% in 2009. Memories are short on Wall Street with most recollections not extending much further back than yesterday's closing prices. In my opinion, the trend in bonds is in the process of going full circle by returning the investor back to the time frame before the 1981 interest rate peak – in other words, we have returned to the "era of no winners" once again.