Fee-Only Financial And Investment Planning

Make An Appointment

On Course | September 26, 2023 | Volume 23, #7

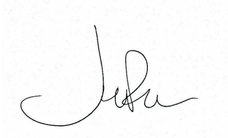
Welcome. We at Compass Planning continue to appreciate your support. Thank you.

When both the bond and stock market went down in 2022 – for different reasons – everyone became worried. The stock market has been much faster to recover than the bond market, which has led clients to ask questions about how to manage their bond holdings. We've been recommending that clients look at their bond asset allocation, portfolio balancing, and opportunities within the bond market.

This month we talk about why bonds are important, the difference between individual bonds and bond funds, and how bonds can fit into your investment strategy.

If you missed our series on retirement, you can still access the issues. For Retirement, Part 1 - Retirement Savings, click **here**. For Retirement, Part 2 - Social Security, click **here**. For Retirement, Part 3 - The Retirement Paycheck, click **here**.

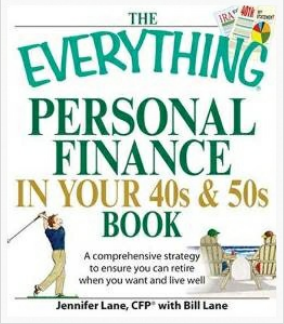
If you would like assistance reviewing your portfolio bond positions, we are here to help you stay *On Course*!



Jennifer Lane, CFP

You can buy bonds from your broker who will offer you a price and calculate the yield for you. You can choose from government as well as corporate and municipal bonds and CDs. You can buy Treasury bonds and other government bonds direct at **www.treasurydirect.gov**.

Get more tips in Jennifer's book



Managing Bonds in Your Portfolio

Understand the bond market and
how it can fit into your investment strategy

Importance of bonds

- Bonds provide income and diversification. Ideally, bonds are negatively correlated with stocks. When stocks go up in value, bonds go down; when stocks go down, bonds go up.
- Owning bonds that pay interest income is a nice way to support retirement income or college expense goals. Often, bonds are a larger part of your portfolio when you're retired.
- If you don't need the interest for income, the payments from a bond help build the portfolio as the payments are reinvested.
- Now that we're back to a world of higher interest rates, many people are back to investing in individual bonds in addition to bond funds for the fixed income part of their portfolios.

Owning individual bonds and bond funds

- Individual bonds are attractive because they provide a guaranteed yield if you hold them to maturity – assuming you buy a high-quality bond and not a junk bond.
- Bond funds fluctuate in value because the fund is buying and selling bonds all the time. The fund's' value fluctuates with the market. When interest rates are decreasing, your bond fund value will increase even though the bonds inside the fund are paying less interest. The opposite happens when rates are increasing, i.e., the fund loses value but the interest it pays will increase.
- Individual bonds lock you into an interest rate for as long as you hold the bond. Capture new interest rates with a ladder of several bonds, each maturing three months after the other. When the first bond matures, replace it with a new bond that matures at the step beyond the last bond in your ladder.

STRATEGIES FOR MANAGING BONDS

Tax loss harvesting for taxable accounts – replace funds with individual bonds

- If your bond fund has a loss (as many do), i.e., your cost basis for the position is negative, a strategy called "tax-loss harvesting" helps make lemonade out of lemon. Step one: sell the bond fund. Step two: buy individual bonds with the proceeds. This way you stay in bonds to maintain your asset allocation, but you're able to use the bond fund loss on your tax return.
- The tax loss goes against capital gains this year or in the future. If you don't have enough capital gains this year, you can count up to $3,000 against regular earned income. The capital loss carries forward until it's all used up either against capital gains or earned income.
- If you have funds in non-taxable accounts, you might consider selling those and moving to individual bonds to get their guaranteed yield, or you can wait and enjoy increasing interest payments as rates increase.

Leave funds alone

- Your funds will continue to earn interest whether you're reinvesting or taking interest in your retirement.
- Bond funds are going to continue to increase yield slowly as interest rates in the market increase.
- Last year around this time, aggregate bond funds were yielding about two percent. Right now, the yield is four percent or more.

Helpful Websites

Fixed Income Outlook: Bonds Are Back - Charles Schwab

The Bond Market is Starting to Recover - Barron's

Jennifer In The Media

Below are links to Jennifer's frequent contributions to financial planning articles.

- Jennifer contributed to an article for **USA Today** on managing credit card debt. Click **here** to read ***Debt snowball vs. debt avalanche: The best way to pay off credit card debt***.
- NBC Boston turned to Jennifer for advice and tips on what to do if you win big in the lottery. **Click here** to watch or read the segment.
- Jennifer contributed to a WBUR Radio Boston segment, ***How to Look Before You Leap into the "Great Resignation."*** Click **here** to listen.
- NBC10 consumer investigative reporter Leslie Gaydos interviewed Jennifer for savings tips. For a great video, ***How to Save $1,000 in 5 Months***, click **here**. For the written article, click **here**.
- Jennifer contributed to a timely article, ***How to seek forbearance on your mortgage,*** for **The Boston Globe**. **Read article**.
- If you're interested in dividend funds, Jennifer contributed to **The New York Times** article, ***Dividend Funds Can Add Income, and Risk, to Your Portfolio***. **Read article**.
- Jennifer contributed to a **BankRate** article, ***Should I combine my mortgage and student loans?*** **Read article.**
- Need help with your 401(k) during the pandemic? Jennifer contributed to a **Boston Globe** article, ***Five tips for managing a 401(k) during the pandemic's turbulence***. **Read article**.
- Jennifer contributed to the **Bottom Line Inc** article ***Prepare your Finances for a Possible Recession***. **Read article.**
- Jennifer contributed to **The Wall Street Journal** article ***If Saving During a Pandemic Is Hard, Here's How to Stay Motivated.*** **Read article.**
- The **New York Times** featured Jennifer in an article titled, ***Balanced Funds Don't Inspire Fear or Greed. That's Why They Are So Useful***. **Read article.**
- With a contrarian view, Jennifer contributed to an article, ***People are enraged by the idea that you should have twice your salary saved by the time you're 35!*** published recently by **Business Insider**. **Read article.**
- Moving in together? Check this article from **Business Insider**, ***Five questions you and your partner should answer before taking the biggest step in your relationship.*** **Read article.**
- **Insider** asked Jennifer to contribute to an article on old fashioned ways to manage your money, ***Six money-saving tips your grandma used that are way more effective than any budgeting app***. **Read article.**
- Jennifer contributed to an article on **Business Insider**, ***This is the best way to do your taxes online - according to experts.*** **Read article.**
- **CNN Money's** Money Moves featured Jennifer in an article on how to strike the right balance between retiring early and saving enough. **Read article.**
- Jennifer contributed to a **CNN Money** article ***When is the Right Time to See a Financial Advisor?*** **Read article.**

Compass Planning News

- Compass Planning continues to meet with clients as well as those interested in learning more about the firm via phone and web-based video conferencing. Email **info@compassplanning.com** to learn more.
- Compass Planning has become a supporter of **The Center for Financial Planning** at the sustainer level. The CFP Board created the center to achieve a more diverse and sustainable financial planning profession so that every American has access to competent and ethical financial planning advice.

Compass Planning Associates helps families, individuals, and small-business clients achieve financial security, knowledge, and control over their money. Our fee-only, client-centered approach provides education and guidance for achieving financial goals and dreams.

Compass Planning Associates, Inc

Contact Us

PO Box 917
Westwood, MA 02090
617-523-4666
info@compassplanning.com