Simple Philosophy - Bonds

Solutions derived from a simple approach

Our approach to investment management is rooted in a simple philosophy – we align our management approach with your investment objective. Like our clients, we are more interested in consistency of returns, capital preservation, and investment growth than intermittently spectacular returns. To accomplish this end, we blend high quality, sustainable-growth equities with high quality intermediate-term bonds to create a custom investment portfolio designed to meet your specific investment objective.

Bonds

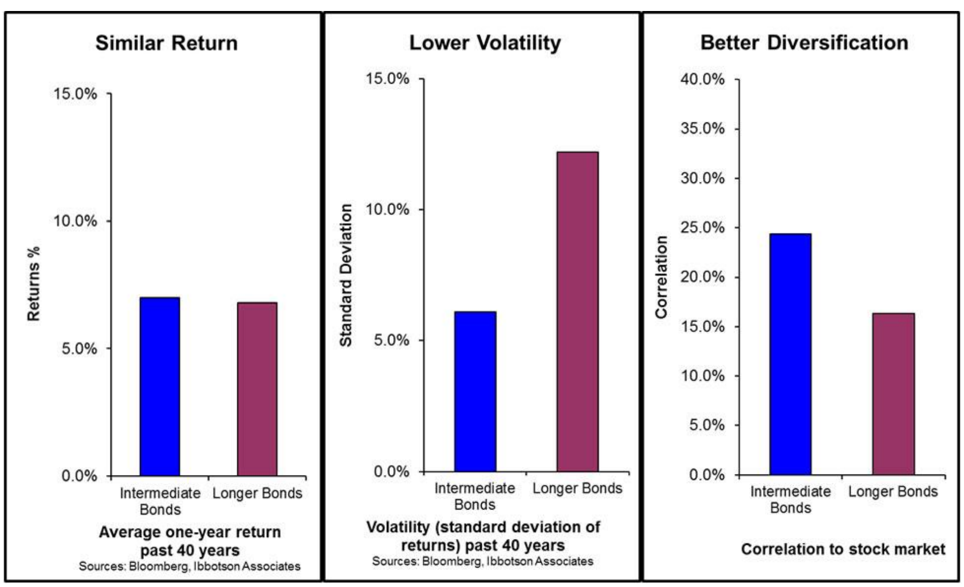
While many investors view bonds as merely income producing securities, we take a different and much broader view of bond investing. We believe that bonds can not only produce rewarding returns, but they can also reduce risk and provide effective portfolio diversification–at the very times when diversification proves most elusive.

A Portfolio Role different From Stocks

Bonds can, in essence, become a risk thermostat within an asset allocation plan. Just as a room thermometer can help keep its occupants comfortable during uncomfortable weather, bonds can help dial portfolio risk into a client's comfort zone. Bonds can play an important role in smoothing the *ride along the way* that is part of every investment experience. But to do that effectively, only bonds with risk characteristics different from stocks can be used.

Managing Risk

When interest rates are rising, long-term bonds can decline in value similar to stocks. In our view this is an outcome inconsistent with the role bonds are intended to play within a portfolio. We, therefore, focus on bonds with short- to intermediate-term maturities to help minimize risk. The chart to the right helps explain this using historical data.



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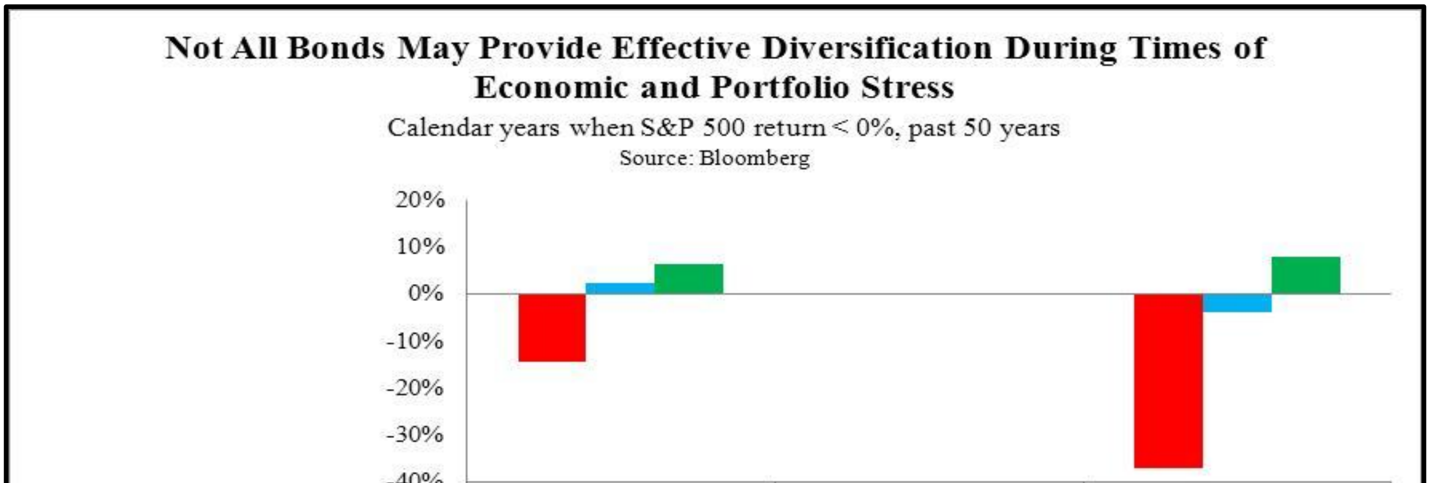
Likewise, in periods of elevated economic stress and uncertainty, low credit quality bonds can suffer equity-like declines. Again, this is unacceptable if bonds are to deliver effective diversification. It is in just such periods of duress for stocks and most other assets which also coincide with increased joblessness, soft real estate valuations and personal financial stresses, that diversification proves illusive. The chart below provides some historical perspective.



	Annualized returns (all years)		Financial Panic of 2008
Stock Market (S&P 500)	-14%		-37%
Investment Grade Corporate Bonds	2%		-4%
Treasury Notes/Bonds	6%		8%

For this reason, we typically invest in high-quality taxable and tax-free bonds.

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