

# LANDMARK FINANCIAL ADVISORS, LLC

WEALTH MANAGEMENT

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## A PRIMER ON BONDS

Bonds play an important role in a well-diversified portfolio, helping to offset the volatility of stocks and generating a steady stream of income. We anticipate bonds being in the news a lot in the coming months, so we thought we would revisit the basics to ensure you understand what bonds are.

Simply stated a bond is a promise (loan) to repay money, with interest, on a certain date in the future. When we buy bonds, we are lending your money to an entity in return to receive regular interest payments and the promise to repay the principal amount at maturity. A bond has no ownership privileges.

The foremost risk to your bonds is the ability of the borrower to repay your principal and interest. The institutions can be the U.S. Treasury, government agencies, state and local governments, and corporations. The interest rate you earn on your bond will correspond to the amount of credit risk you are taking with the borrower. The lower the quality...the higher the rate you should receive in return for the added credit risk.

The other primary risk to bonds is interest rate risk. One of the most important things to know about investing in bonds is that bond prices and interest rates move in opposite directions. In addition, interest rates are not all created equal. The longer it takes a bond to reach maturity, the greater the fluctuations will be in price. Because of this risk, Landmark invests in short-term maturity bonds, thus receiving less income today with the objective of less price volatility and ability to buy newer bonds if rates rise. As an example, short-term bonds (Barclays US 1-5 Yr Gov/Cr Index) were only down -0.54% YTD after the end of the second quarter vs. long-term bonds (Barclays US Long Gov/Cr Index) being down -7.67%.

We do have historically low yields today, but be careful in looking for alternative ways to improve the income by looking for bond substitutes. High quality bonds offer diversification potential when it is most needed...that is when equities are performing poorly.

## WHY OWN BONDS?

Investors have consistently shown a strong preference for avoiding losses, versus the benefits they receive from realizing a gain. This phenomenon is called loss aversion and is why bonds remain an essential element of a balanced portfolio. Despite bonds' importance for diversifying equity risk, today's low bond yields mean that balanced portfolios have more downside risk than in the past. Investors who prefer to protect downside risk will need to invest a majority of their portfolio in bonds, accept lower future returns, and recognize that the possibility of realizing a loss is higher than it has been historically. Investors who are less loss averse and are seeking higher returns will need to increase their equity weightings, but must be prepared to accept much more downside risk and volatility.

You can't have your cake and eat it (too), so understand your appetite for risk...it should be the primary driver of your investment strategy.

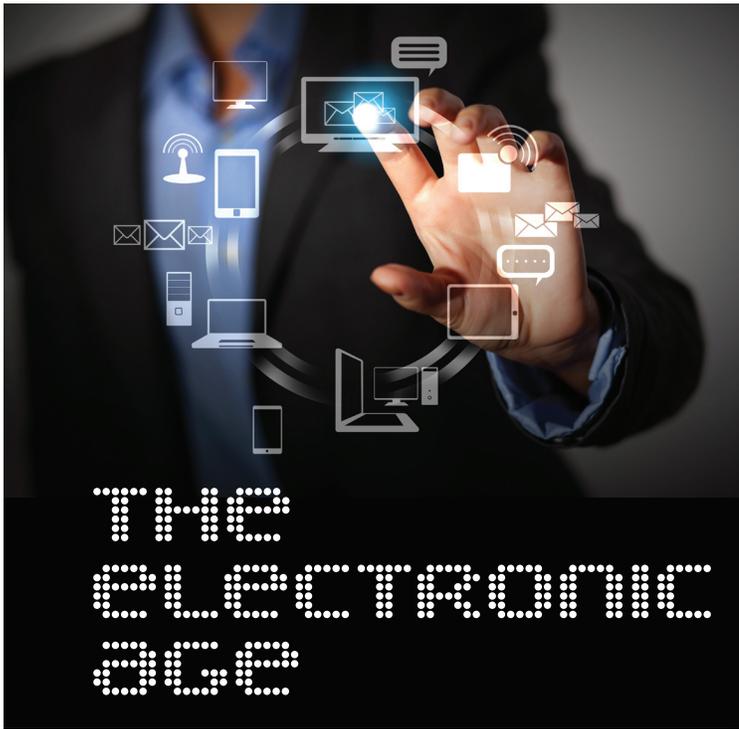


“ Time is more valuable than money. You can get more money, but you cannot get more time. ”

—Jim Rohn

“ Incompetence is the disease of idiots. Overconfidence is the mistake of experts... Incompetence irritates me. Overconfidence terrifies me. ”

—Malcolm Gladwell



Technology continues to advance at a rapid pace, and we strive to stay current. As such, we need to remind you that leaving trade orders or money transfer instructions via text or cell voicemail is not recommended. We would prefer to have an email or talk with you directly to ensure that we have proper documentation.

In addition, we would encourage you if sending documents with sensitive information (social security, account numbers or financial data) to do that through your client web portal instead of email. Once you are logged into the portal the “Contact Us” tab allows you to send an encrypted message to the person of your choice, and you can also attach a document to upload as well. This goes directly to your client folder in our CRM database, and is more secure than email.

If you need help with a password reset or getting set-up on your portal, contact Julia or Carrie.

