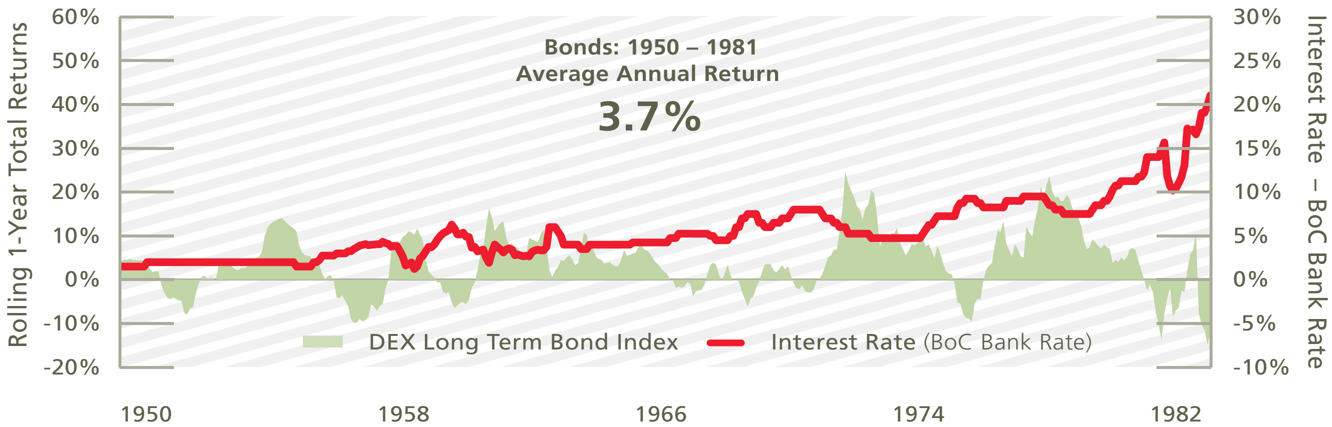
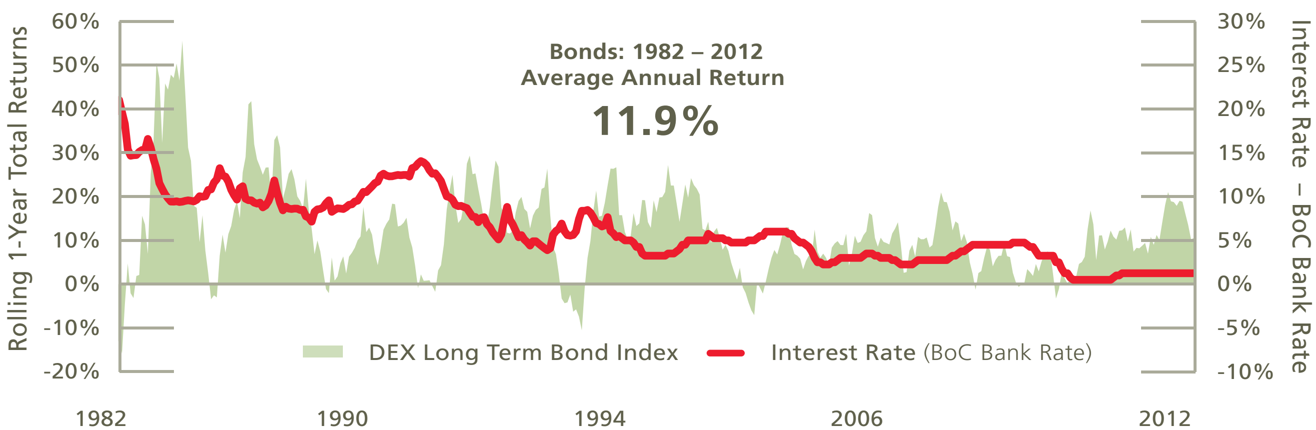
An Interesting Take on Bonds

There are two distinct performance periods for bonds: 1950-1981 and 1982-2012. The first period is marked by a modest average annual return of 3.7% – much of this originating from the income generated by the bonds. The second period enjoyed an above-average 11.9% return thanks to the capital gains resulting from steadily declining interest rates.

DEX Long Term Bond Index vs. Interest Rate

January 1950 - October 2012





Bonds standing as a bedrock of stability and income endures. Yet with interest rates at historical lows and limited room for further declines, and in turn capital gains, the importance of maintaining a well-diversified portfolio that includes suitable exposure to equities has never been greater.

Not all fixed income investments carry the same exposure to interest rate risk. As a rule of thumb, shorter-term bond funds are less interest rate sensitive than longer-term bond funds.

Source: Interest Rate – Bank of Canada, DEX Long Term Bond Index 1-Year Rolling Returns – Morningstar.

Rate of returns are for illustrative purposes only and are not intended to forecast future returns on any investment.