

The Role of Bonds in a Growth Portfolio

THE POWER OF BONDS

Bonds are widely regarded as a defensive, income-generating investment that delivers lower results than stocks. But, this doesn't mean they can't be used successfully in a growth portfolio.

Take for example an investor in the early accumulation phase who is focused on building her wealth. She requires a sizeable allocation to assets like equities to achieve her growth objectives but she also wants to reduce the volatility of her portfolio and, ultimately, the chances of negative returns.

An investment in bonds could provide the stability she requires without a significant reduction in growth. For example, in the 96 year period from 1926 to 2022, a portfolio of 100% U.S. equities would have delivered an average annual return of 11.92% with an average loss of -13.62.

If however, the portfolio was diversified with a 30% allocation to U.S. bonds, the average loss would have reduced to -9.09%. Critically, similar levels of growth would have been achieved with an average annual return of 9.89 – 2.03% less than a 100% equities portfolio.

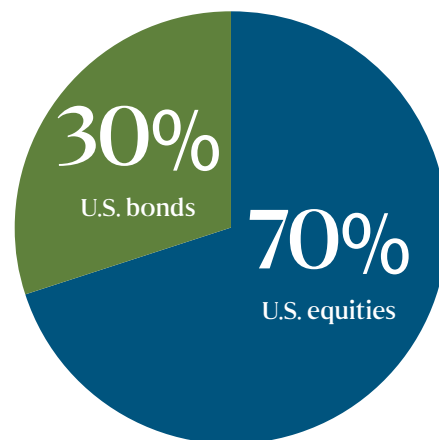
WHILE BONDS MIGHT BE REGARDED AS A DEFENSIVE, LOWER GROWTH INVESTMENT, THEY CAN HAVE AN IMPORTANT AND VALUABLE ROLE TO PLAY IN A GROWTH PORTFOLIO. AN ALLOCATION TO BONDS COULD REDUCE THE PAIN OF LOSS WITHOUT IMPACTING AN INVESTOR'S LONG-TERM GOALS.

Scenario 1: 100% Equities



Avg annual return 11.92%
Best year (1933) 52.89%
Worst year (1931) -43.86%
Years with a loss 26 out of 96
Average loss -13.62%

Scenario 2: Equities + Bonds



Avg annual return 9.89%
Best year (1954) 37.63%
Worst year (1931) -34.47%
Years with a loss 24 out of 96
Average loss -9.09%

As of 31 December 2022

Source: Global Financial Data; Equity: US Large Company Stocks (S&P 500), Fixed Income: US 10-year Treasury Bonds

For illustrative purposes only.

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Refer to Appendix for additional index, investment strategy and risk information.

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