

DIVERSIFYING EQUITIES WITH BONDS

The key to riding out market downturns lies in a balanced, well-diversified portfolio of quality investments. It's your overall mix of investments (asset allocation) that ultimately can determine how well your portfolio performs. To complement the equities in your portfolio, consider owning bonds.

Bonds can offer several benefits, which include:

- Providing a steady stream of income payments
- Protecting investment principal (the face amount of the bond)
- Reducing risk within your portfolio

Bonds are an important part of portfolio diversification because the income they provide can serve to anchor your portfolio in stormy markets. However, if you don't need the income, you may still benefit from bonds. Although equities provide better long-term returns than bonds, bonds can help reduce risk because they can provide better price stability for your portfolio. So whilst a dip in share prices shouldn't cause you to abandon equities, it should help to remind you that savvy investors own bonds too.

How Diversification Helps in a Declining Share Market		
Year	All Equities Portfolio ¹	65/35 Mix of Equities and Bonds ¹
2000	-4.9%	-0.5%
2001	-12.9%	-8.0%
2002	-22.3%	-10.9%
2008	-31.1%	-16.0%

In the table above, share and bond prices generally didn't move in tandem. In other words, when share prices declined, bond prices might have risen, and vice versa. This relationship helps your investments achieve more stable returns. As a result, owning bonds during a stock market downturn can help reduce your losses.

You may be concerned that owning some bonds along with shares may lower your returns over time. Although past performance is not necessarily a guide to future performance, the following chart shows that in the past there was not a significant reduction in the return achieved in the long run.

Long-term Returns		
Year	All Equities Portfolio ¹	65/35 Mix of Equities and Bonds ¹
1970s	11.5%	10.3%
1980s	23.4%	20.5%
1990s	15.0%	14.4%
2000s*	-1.3%	1.1%
1999-2008	1.2%	2.5%

*As of 31 December 2008

During uncertain markets, it can be easy to become preoccupied and lose site of your long-term financial goals. To help ensure your portfolio has an appropriate mix of shares and bonds that matches your risk preferences, schedule an appointment with your Edward Jones financial adviser.

¹ Source: ABN-AMRO Global Investment Returns Yearbook.

Equities based on the FTSE All-Share Index and bonds based on the ABN-AMRO/London Business School Long Government Bond Index.

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