AUGUST / 2024

REACH

Bonds versus bond funds

Investors buy bonds to help diversify their portfolios or to provide an income stream. Including bonds or bond funds in a portfolio can also add an element of stability to it, especially during periods of stock market volatility.

What is a bond?

Governments and government agencies issue bonds to finance various activities and projects, such as highways, schools, airports and sewer/water systems. Corporations also issue bonds to raise money for a variety of corporate goals, such as the construction of new facilities or for research and development. Investors lend money to the bond issuer when they buy the issuer's bonds. In return, the issuer promises to pay interest at a specified rate and to repay the loan (at face value) to the bondholders by a certain date (the maturity date).

Bond funds

Bond funds offer simplicity, diversification and professional management, all attributes that can be appealing to many investors. Some bond funds focus on holding only U.S. government bonds, others specialize in in corporate bonds or municipals and still others own bonds from a combination of issuers. There are funds that emphasize maturity: short-, medium- or long-term. However, a bond fund itself never matures. The fund's managers reinvest the money received from maturing bonds in other bonds. Bond fund managers buy and sell bonds in an attempt to take advantage of interest rate changes and other market developments that may increase the fund's share value.

An investor in a bond fund receives distributions of interest and any net capital gains the fund realized on the sale of its holdings. Investors can lose money if they sell their fund shares for less than they paid for them. Bond funds are not insured by the Federal Deposit Insurance Corporation (FDIC) or any government agency and are not guaranteed by any government agency or bank.

	Bonds	Bond funds
Minimum investment	Higher	Lower
Liquidity	Lower	Higher
Control & transparency	Higher	Lower
Research & oversight	Higher	Lower
Income frequency	Typically semiannually	Typically monthly

(Continued)

Ownership risks

No investment is risk free, and bonds are no exception. There are several risks that come with owning bonds. These include:

Interest rate risk. An investor who pays full value for a bond and holds it to maturity expects to have his or her investment returned in full. However, bond prices typically fall when interest rates rise and a bond sold before maturity may be worth less than its face value. The opposite occurs when interest rates decline – the value of an existing bond with an interest rate that's higher than the market rate will rise because the bond's higher interest rate makes it a more attractive investment than similar, newly issued bonds that have a lower interest rate.

Long-term bonds are considered to be riskier than short-term bonds since there is a greater level of uncertainty as to what interest rates will be in the future. Issuers of long-term bonds tend to compensate for the higher risk by offering higher yields.

Credit risk. The financial health of the issuer of a bond is important since a bond is a debt instrument. There is a risk that the issuer will not be able to pay interest at the scheduled dates or repay the principal when the bond comes due at its maturity date. Investors can minimize this risk by checking how the various credit rating agencies, such as Standard & Poor's, rate the credit of the bond issuer.

> A financial professional can help investors determine the appropriateness of adding individual bonds or bond funds to their portfolios.

USI Consulting Group can help keep you on track to reach your retirement goals. If you have questions about your workplace retirement plan, please call our customer service center at 866.305.8846 or email us at directsolutionsparticipantquestions@usi.com *(reference your plan's name and 3-digit code in the subject line).*

Prices of fixed income securities may fluctuate due to interest rate changes. Investors may lose money if bonds are sold before maturity.

You should consider the fund's investment objectives, charges, expenses, and risks carefully before you invest. The fund's prospectus, which can be obtained by calling your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money.

Diversification does not ensure a profit or protect against loss in a declining market.

This content is for general informational and educational purposes only and should not be relied upon as the only source of information. Neither USI nor its affiliates and/or employees/agents/registered representatives offer legal, tax or investment advice to plan participants. It is not intended to represent advice or a recommendation of any kind. Prior to acting on this information, we recommend that you seek independent advice specific to your situation from a qualified legal/tax professional.