Worst Bond Fund Losses Ever!

Most investors who shun stocks and stock funds in favor of bond and bond funds do so for the increased safety provided; however, bonds and bond funds do not come without risk. They are not the almost-sure-thing that FDIC-insured certificates of deposit are. Previous owners of bonds and bond funds have faced the reality of waiting a long while for the regrowth of the principal side of the investment. Some bond fund investors have waited over 40 years for their bond funds to regenerate lost principal, and some are still waiting.

Rising interest rates, as we all know, are the bane of bonds and bond funds alike. Quite simply, when interest rates rise, bond values fall. The greatest rate increase in American history occurred from December 1976 through September 1981 when interest rates almost doubled. In specific,

Index	Dec-76	Sep-81	Increase
90-Day Treasury	4.35%	14.95%	244%
S&P High-Grade Municipal	5.69	12.86	126
U.S. Government 10-Yr	6.39	15.32	140
Prime Rate	6.50	20.50	215
Moody's AAA Corporate	7.98	15.49	94
FHLBB Home Loan (10-yr)	9.10	15.25	68

We did a study of the bond funds that existed back then, detailing what happened to their value as interest rates rose.

***<u>Note:</u>* for this study, it was assumed that fund owners were stripping the generated interest as income and looking to the fund management to protect the principal. Therefore, interest income was not considered in the computation of returning the principal value. Only capital gains were included. Also, no commissions were subtracted from any of the funds.**

Of the 45 bond funds that existed in December 1976, 26 of them eventually returned their NAV to their December 1976 level, although it took an average of 15 years and 3 months to get there. As of December 2014, data on four funds was no longer found and 15 funds still had not returned their NAV to their December 1976 level, producing an average NAV of 68-cents-on-the-dollar.

The details follow:

Fund Name	Symbol	Category	Principal Loss 12/31/1981	Back to Breakeven . . .	. . . or percent of original
Alliance Corporate Bond (1)	CBFAX	Corporate Investment-Grade	-43%	16-yr 10-mo	
AXP Selective (2)	INSEX	Corporate Investment-Grade	-42%	16-yrs 3-mo	
AXP Tax Exempt Bond (3)	INTAX	Municipal	-23%	33-yrs 11-mo	97%
Babson Bond Portfolio (4)	TQIAX	General Bond	-32%	Defunct	85%
Bond Fund of America	ABNDX	General Bond	-32%	16-yr 6-mo	
Delaware Delchester (5)	DETWX	High Yield	-31%	Defunct	34%
Dreyfus Bonds Plus	DRBDX	Corporate Investment-Grade	-28%	16-yr 2-mo	
Dreyfus Municipal Bond	DRTAX	Municipal	-18%	Still not Back	83%
Eaton Vance Income Fund of Boston	EVIBX	High Yield	-13%	6-yr 1-mo	
Endowments Bond Portfolio	BENDX	High Yield	-29%	15-yr 0-mo	
Evergreen High Yield (6)	EKHAX	High Yield	-18%	Still not Back	46%
Federated Fund for U.S. Govt Securities	FUSGX	US Government	-41%	Still not Back	75%
Federated Municipal Securities	LMSFX	Municipal	-27%	Still not Back	86%
Fidelity Intermediate Bond	FTHRX	General Bond	-25%	9-yr 2-mo	
Fidelity Investment-Grade Bond	FBNDX	General Bond	-36%	Still not back	96%
First Investors Fund for Income	FIFIX	High Yield	-23%	Still not Back	31%
FPA New Income	FPNIX	General Bond	-23%	9-yr 4-mo	
Franklin AGE High Income (7)	AGEFX	High Yield	-22%	Still not Back	47%
Franklin U.S. Government Securities	FKUSX	US Government	-44%	Still not Back	65%
INVESCO Select Income (8)	FBDSX	General Bond	-28%	21-yr 1-mo	
J. Hancock Bond	JHNBX	General Bond	-41%	Still not back	87%
Kemper Income & Capital Preservation (9)	SZIAX	Corporate Investment-Grade	-42%	16-yr 8-mo	
Kemper Municipal (10)	KMBAX	Municipal	-21%	15-yr 7-mo	
Lord Abbett Bond Debenture	LBNDX	High Yield	-14%	6-yr 2-mo	
MFS Bond	MFBFX	General Bond	-36%	16-yr 8-mo	
MFS Municipal Bond (11)	MMBFX	Municipal	-26%	6-yr 4-mo	
New England Bond Income (12)	NEFRX	General Bond	-38%	35-yr 6-mo	
Nicholas Income (13)	NCINX	High Yield	-44%	Still not Back	34%
Nuveen Municipal (14)	NMBAX	Municipal	-10%	15-yr 0-mo	
Oppenheimer Municipal Bond (15)	OPTAX	Municipal	-26%	15-yr 2-mo	
Pilgrim GNMA Income (16)	LEXNX	US Government	-39%	Still not Back	83%
Pilgrim High Yield (17)	IHYAX	High Yield	-24%	No more data	54%
Putnam Tax-Exempt Income	PTAEX	Municipal	-18%	9-yr 1-mo	
Scudder Managed Municipal (18)	SCMBX	Municipal	-16%	16-yr 2-mo	
Security Income & Corporate Bond (19)	SIUSX	Corporate Investment-Grade	-29%	Still not Back	68%
Sentinel Bond (20)	SNBDX	General Bond	-36%	Merged	88%
Strategist Quality Income (21)	INSEX	Corporate Investment-Grade	-39%	16-yr 3-mo	
T. Rowe Price New Income	PRCIX	Corporate Investment-Grade	-27%	33-yr 4-mo	
T. Rowe Price Tax-Free Income	PRTAX	Municipal	-2%	10-yr 1-mo	
United Bond (22)	UNBDX	Corporate Investment-Grade	-46%	16-yrs 10-mo	
United Municipal (23)	UNMBX	Municipal	-29%	21-yr 0-mo	
USAA Income	USAIX	US Government	-42%	3-yrs 8-mo	
Van Kampen Corporate Bond (24)	ACCBX	General Bond	-40%	Still not back	81%
Vanguard Long-Term Corporate	VWESX	Corporate Investment-Grade	-31%	16-yrs 7-mo	
WM Income (25)	CMPIX	General Bond	-41%	Still not back	79%

Key

1. *renamed Alliance Bernstein Corpo*
2. *rolled into RiverSource Diversified Bond (INBNX)*
3. *renamed RiverSource Tax-Exempt*
4. *became Tamarack Quality Fixed Income*
5. *closed amidst large losses and class-action suits*
6. *became Wells Fargo High Yield Bond*
7. *became Franklin High Income*
8. *no longer found*
9. *renamed DWS Core Plus Income, now Deutsche Core Plus Income*
10. *rolled into DWS Managed Muni*
11. *renamed MFS Muni Income*
12. *now known as Natixis Loomis Sayles Corporate Plus Bond*
13. *became Nicholas High Income*
14. *renamed Nuveen Intermediate Duration Muni Bond*
15. *renamed Rochester Oppenheimer AMT-Free Muni*
16. *renamed ING GNMA Income, now VOYA GNMA Income*
17. *became ING High-Yield Bond Fund, then VOYA High Yield, now shows a start data of 1998*
18. *became DWS Managed Muni*
19. *became Guggenheim Investment-Grade Bond*
20. *regained 88% of principal as of June 2004, when the fund's tracking disappeared into the MacKenzie fund family*
21. *no longer found*
22. *renamed Waddell & Reed Advisors Bond*
23. *renamed Waddell & Reed Adv Muni Bond*
24. *became Invesco Corporate Bond*
25. *became Principal Investors Income*

While I am not suggesting that interest rates will rise again to those 1981 levels — nor am I suggesting they won't — it is interesting to note how devastating the cumulative effect of rising interest rates can be. With various interest rates lower than they have been in over 30 years, and turmoil the world over, investors should pay attention.

What can an investor do to protect a bond portfolio from rising interest rates?

1. keep bond durations short
2. concentrate on investment-grade issues
3. ladder the entire portfolio
4. shun bonds with "Par to Percent" values in excess of 125%