

March 2011

# Are bonds the next bubble?

**BY PATRICK A. STRUBBE**

ChFC, CLU, RFC

I subscribe to over a dozen monthly journals. To be fair, I don't actually READ all of them! After all, it IS nice to have time each month for reasonably important things like getting work done and spending time with my family!

I subscribe to so many so I can skim all of them for articles that are of interest to me and my clients. Every once in a while, I see a number of articles on the same topic throughout all the different periodicals; and over the past few months, I've seen the title of this article many times.

First we should probably define a 'bubble.' One definition simply says a bubble is when a particular asset trades at an inflated value. We've already seen a number of bubbles just in the last decade. The early 2000's were considered the technology or 'dot-com' bubble. After peaking in March of 2000, the NASDAQ fell 78% over the next two and a half years! Since then, we've seen what

many have called bubbles in both the general stock market as well as housing.

Now many experts are suggesting that the next bubble to come is in the bond market. One of the biggest reasons is how bonds work in relation to interest rates. Typically, the value of a bond moves in the opposite direction to interest rates. If interest rates go down, the value of bonds go up. While there have been ups and downs along the way, generally interest rates have been falling for about 30 years. If you were saving or borrowing money back in the early 80's, you probably remember interest rates of 14, 17, or even 20%!

These falling rates have made bonds very attractive in the last couple decades. But what should we expect now? Can interest rates go any lower? If you own CD's, I'm guessing your answer is "No Way!" The authors of these articles are suggesting that at some point in the near future, we should expect interest rates to rise. Their warning is that if

and when that happens, any accounts you have that are tied to bonds will most likely lose value.

So if you own any bonds, this could be very important news for you. Or if you have any bond mutual funds. Another likely spot is inside a 401k. Many 401k investment options invest at least a portion into bonds. Now is a great time to review your holdings and see what you have. If you're not sure, get the help of a professional to assist you.

Next month we'll discuss alternatives to bonds that might be attractive for you.

Patrick A. Strubbe, ChFC, CLU, RFC, is the Founder and Owner of Preservation Specialists, LLC, and works with Midlands area residents to help them enjoy retirement with confidence. To contact him with questions or suggestions for monthly topics, please email him at [Service@SCPreservation.com](mailto:Service@SCPreservation.com) or call his office at 803-798-1988.

Securities offered through Kalos Capital, Inc and Investment Advisory Services offered through Kalos Management, Inc. both at 3780 Mansell Rd, Suite 150, Alpharetta, GA 30022, (678) 356-1100. Preservation Specialists, LLC is not an affiliate or subsidiary of Kalos Capital Inc. or Kalos Management Inc. Kalos Capital Inc. does not provide tax or legal advice. Please consult with your tax and/or legal advisor for such guidance.