Assignments

Financial Plan Assignments

Continue to work on your Investment Plan. As you do, it your assignment is to review the history of both short-term and long-term bonds over the past 5, 10, 25, 50, and 75 years. How have bonds performed overall? What do bonds add to a portfolio? What disadvantages do bonds have? How can you minimize the disadvantages of bonds, while at the same time enjoying the advantages bonds offer?

Benchmarks: What are the major benchmarks or indexes that correspond with bonds? (See Possible Benchmarks for Investment Plans (LT15). It is likely you will include bonds in your diversified portfolio, so it is important you select the major benchmarks you will follow to help you understand how bonds perform.

Volatility: Generally, investors consider bonds less risky than stocks. To graphically see the volatility of bonds versus other asset classes, open Expected Return Simulation and Benchmarks (LT27). Go to the *Asset Class Data* tab and use the light-blue drop-down boxes to select your asset classes (or you can just use the asset classes listed). Use the dark-blue drop-down boxes to select your time period. Then go to the *Charts* tab. Push the *F9* button to see the impact of standard deviation.

This worksheet builds random portfolios with the expected return and standard deviation of the period and asset class chosen. It then assumes that each asset class builds 10 different portfolios and that those portfolios are run for 20 years. The differences between the 10 different portfolios are shown in the same colored lines. The more the lines move together, i.e., the more each of the random portfolios move together, the less risky or less volatile the asset class. The more the same colored lines diverge, the more risk or more volatile the asset class.

Returns: To see what the returns have been for various types of bonds, go to Expected Return Simulation and Benchmarks (LT27)**.** Go to the tab labeled *Returns and Risk*. Look for the 1-, 5-, 10-, 25-, 50-, 75- and 85-year returns for Treasury bonds (long-term government bonds with maturity of more than 10 years) and Treasury bills (short-term government bonds with maturities less than one year). How have these assets performed compared to equity or stock returns?