



Bonds and Your Retirement Plan

Bond Funds

If you participate in a retirement plan, you probably don't have the option to invest directly in individual bonds. But you likely have at least one bond fund offering. A bond fund is a professionally managed collection of bonds, and there are several different types. Some invest only in U.S. Government bonds while others specialize in corporate bonds. Some funds hold only bonds with short maturities while others hold longer-term bonds.

One thing to keep in mind about bond funds: They don't mature. Fund managers often sell bonds before maturity and buy different bonds. When bonds in a fund's portfolio reach maturity, the proceeds are reinvested in other bonds.

Yield Versus Total Return

Many investors confuse a bond fund's yield with its total return. When choosing a bond fund, you should set your sights on *Total Return*.

Yield is based on the interest the bond fund distributes to investors. A high yield doesn't guarantee a high total return. In fact, high yields sometimes mean high risk. That's because high yields are associated with lower-rated bonds, which have a greater risk of default.

A bond fund's **total return** is a combination of yield and the change in its net asset value. When choosing a bond fund, look for one with a strong total return. One way to select a fund is to compare it to other funds that have similar maturity and credit-quality levels. To get a clear picture of a fund, look at its total returns for at least the past three years. Also look at a fund's expense ratio. Low expenses contribute to strong total returns.

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