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One of the main reasons for owning a bond fund is to have an investment that doesn't go up and down too much, and that may hold its value fairly well whenever your stock investments take a bath.

As with anything there are pros and cons to bond funds.

On the pro side: they provide you instant diversification. A single fund may hold hundred or more issues so if one or two of the borrowers default on the loan you typically won't lose but a small part of your investment.

A bad thing with bond funds is they typically lack a maturity date.

Bonds, and bond funds, can fluctuate in value from day to day. If interest rates go up the bond you already own may be less appealing to potential buyers since alternatives just got priced with the higher interest payout.

Conversely, if interest rates go down your bond suddenly becomes more attractive and goes up in value.

Think of it as a seesaw: whichever way interest rates move, bond prices go the opposite way.

A typical bond fund may have a duration of six years. This means that if interest rates rise by one percentage point the principal value of the fund will go down by six percent.

Six percent isn't horrific unless you expected your bond fund never to go down in value.

Going back to the financial crisis ten years ago you could see highly rated bonds drop forty percent in value. If the bond had a maturity date you could latch on to the idea of holding the bond and waiting for the value to recover to match the face value by the maturity date.

If you owned a lot of similarly highly rated bonds in a fund you'd see a similar forty percent drop in value but you wouldn't have a future date holding the promise of a return to full value. And, thus, many investors sold to avoid the pain.

Another word of caution regarding bonds in funds: if you are currently drawing from your investments I'd caution against owning only a target date fund or other all-in-one type of funds.

One reason for owning bonds and stocks is to avoid selling stocks during one of the large but temporary drops. That's when you want to be able to reach out and sell fixed income investments so that your stock investments may have time to recover.

If you own only a one-in-all fund you'll sell stocks and bonds each time you sell a few shares. During a stock market crash you'd be selling both bonds and stocks. The bonds might not have lost much but the stock portion probably had dropped a lot before you sold. Which is exactly what you want to avoid.

I believe it is better to own stocks and bonds in separate investment vehicles.

Good luck.

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Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks. S&P 500 Index: The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value
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