

California Dentists' Guild  
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## The Guild This Month

www.cadentistsguild.org

January 2012

If you have any questions or comments, please contact:

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**\*\*NEW\*\***

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**Important Dates:**

**ALL Transactions must be received by 10:00 am.**

**Transfers or Terminations:**

**Friday, January 27, 2012**

**Contributions:**

**Tuesday, January 31, 2012**



*The following is an excerpt from*

### The Complete Money and Investing Guidebook

*by Dave Kansas*

#### **FOCUS FOR TODAY: BONDS**

Bonds are a form of debt. Bonds are loans, or IOUs, but you serve as the bank. You loan your money to a company, a city, the government – and they promise to pay you back in full, with regular interest payments. A city may sell bonds to raise money to build a bridge, while the federal government issues bonds to finance its spiraling debts.

Nervous investors often flock to the safety of bonds – and the steady stream of income they generate – when the stock market becomes too volatile. Younger investors should carve out a portion of our retirement accounts – 15% or less, depending on one's age, goals and risk tolerance – to balance out riskier stock-based investments.

That doesn't mean that all bonds are risk-free – far from it. Some bonds happen to be downright dicey. As with all investments, you're paid more for buying a riskier security. In the bond world, that risk comes in a few different forms. The first is the likelihood the bond issuer will make good on its payments. Less credit-worthy issuers will pay a higher yield, or interest rate. That's why the riskiest issuers offer what's called high-yield or "junk" bonds. Those at the opposite end of the spectrum, or those with the best histories, are deemed investment-grade bonds.

The safest of the safe are issued by the U.S. government, known as Treasuries; they're backed by the "full faith and credit" of the U.S. and are deemed virtually risk-free. As such, a Treasury bond will pay a lower yield than a bond issued by a storied company like Johnson & Johnson (investment grade). But J&J will pay less in interest than a bond issued by, say, Shady Joe's Mail-Order Bride Inc.

How long you hold the bond (or how long you lend your money to the bond issuer) also comes into play. Bonds with longer durations – say a 10-year bond versus a one-year bond – pay higher yields. That's because you're being paid for keeping your money tied up for a longer period of time.

Interest rates, however, probably have the single largest impact on bond prices. As interest rates rise, bond prices fall. That's because when rates climb, new bonds are issued at the higher rate, making existing bonds with lower rates less valuable.

Of course, if you hold onto your bond until maturity, it doesn't matter how much the price fluctuates. Your interest rate was set when you bought it, and when the term is up, you'll receive the face value (the money you initially invested) of the bond back – so long as the issuer doesn't blow up. But if you need to sell your bond on the secondary market – before it matures – you could get less than your original investment back.

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Up until now, we've talked about individual bonds. Mutual funds that invest in bonds, or bond funds, are a bit different: Bond funds do not have a maturity date (like individual bonds), so the amount you invested will fluctuate as will the interest payments it throws off.

Then why bother with a bond fund? You need a good hunk of money to build a diversified portfolio of individual bonds. Depending on the type of bond portfolio you're looking to build, it could require tens of thousands in order to do it right. Bond funds, meanwhile, provide instant diversification. We explain more on the differences between bonds and bond funds below.

Before delving into the world of bonds, you're going to want to familiarize yourself with the types of bonds available and some of the associated vocabulary.

**Treasuries** are issued by the U.S. government and are considered the safest bonds on the market. As such, you won't collect as much in interest as you might elsewhere, but you don't have to worry about defaults. They're also used as a benchmark to price all other bonds, such as those issued by companies and municipalities.

Treasuries are available in \$1,000 increments and are initially sold via auction, where the price of the bond and how much interest it pays out is determined. They also trade like any regular security on the open market. **Treasury Bills**, or T-bills, are a short-term investment sold in terms ranging from a few days to 26 weeks. They're sold at a discount to their face value (\$1,000), but, when T-bills mature, you redeem the full face value. You pocket the difference between the amount you paid and the face value, which is the interest you earned. **Treasury Notes** are issued in terms of two, five and 10 years and in increments of \$1,000. Mortgage rates are priced off of the 10-year note (more commonly called the 10-year bond even though it's technically a note).

**Treasury Bonds** are issued in terms of 30 years. They pay interest every six months until they mature.

**Treasury Inflation-Protected Securities (TIPS)** are used to protect your portfolio against inflation. TIPS' usually pay a lower interest rate than other Treasuries, but their principal and interest payments, paid every six months, adjust with inflation as measured by the Consumer Price Index. It's best to hold these in a tax-deferred account, like an individual retirement account, or IRA, because you'll have to pay federal taxes on the increase in the underlying principal – even though you don't get the principal back until maturity. When TIPS do mature, investors receive either the adjusted principal or the original principal, whichever is greater. TIPS are sold with five, 10, and 20-year terms.

**Savings Bonds** are probably some of the most boring gifts out there, but it can't hurt to understand how they work. You can redeem your savings bonds after a year of holding them, up to 30 years. They're currently offered in two flavors, both issued by the U.S. Treasury:

**EE Savings Bonds** earn a fixed-rate of interest (currently 3.4%) and can be redeemed after a year (though you lose 3 months interest if you hold them less than five years), but can be held for up to 30 years. When you redeem the bond, you'll collect the interest accrued plus the amount you paid for the bond. They can be purchased in the form of a paper certificate at a bank for half of their face value (for example, a \$100 bond can be purchased for \$50) in varying increments from \$50 to \$10,000. If they're purchased online, they're purchased at face value, but can be bought for any amount starting at \$25.

**I Savings Bonds** are similar to EE savings bonds, except that they're indexed for inflation every six months. These are always sold at face value, regardless of whether you buy paper bond certificates or you buy them electronically.

**Agency bonds** are not quite as safe as Treasuries, but yet it's often safer than the most pristine corporate bonds. They're issued by government-sponsored enterprises. Because these companies are chartered and regulated in part by

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# December 2011 Unit Values

**Major Index Close: December 31, 2011**

**DJIA = 12,217 SPX = 1257 Nasdaq = 2605**

**Major Index Close: November 30, 2011**

**DJIA = 12,045 SPX = 1246 Nasdaq = 2620**

the government, the bonds they issue are perceived to be safer than corporate bonds. They are not, however, backed by the "full faith and credit" of the U.S. government like Treasuries, which would make them virtually risk-free.

**Municipal bonds**, or Munis, as they're commonly known, are issued by states, cities and local governments to fund various projects. Municipals aren't subject to federal taxes, and if you live where the bonds are issued, they may also be exempt from state taxes. Some municipal bonds are more credit-worthy than others, though some munis are insured. If the issuer defaults, the insurance company will have to cover the tab.

**Corporate bonds** are bonds issued by companies. Corporate debt can range from extremely safe to super risky.

**Coupon** is another word for the interest rate paid by a bond. For instance, a \$1,000 bond with a 6% coupon will pay \$60 a year. The word coupon is used because some bonds really had a paper coupon attached to them, which could be redeemed for the payment.

**Par** is also known as the face value of a bond, this is the amount a bondholder receives when the bond matures. If interest rates rise higher than the bond's rate, the bond will trade at a discount, or below par; if rates fall below the bond's rate, it will trade at a premium, or above par.

**Duration** is a measure of a bond price's sensitivity to a change in interest rates, measured in years. Bonds with longer durations are more sensitive to interest rate changes. If you're in a bond with a duration of 10 years and rates rise 1%, you'll see a 10% decline in the bond's price.

## CONSOLIDATED FUNDS

As of 12/31/11

| Fund                                  | Unit Value | Asset Value          |
|---------------------------------------|------------|----------------------|
| EMF                                   | 9.2462     | 1,337,693            |
| TKF                                   | 2.8657     | 4,086,874            |
| HBF                                   | 12.4955    | 2,077,364            |
| IPF                                   | 10.3064    | 767,751              |
| REF                                   | 24.6172    | 3,088,526            |
| FEF                                   | 22.1433    | 5,029,348            |
| SIF                                   | 24.8047    | 3,078,539            |
| SCF                                   | 51.3537    | 3,229,933            |
| MIF                                   | 31.8461    | 6,118,176            |
| LGF                                   | 6.8065     | 2,817,545            |
| DVF                                   | 11.2607    | 2,996,927            |
| SPF                                   | 9.8004     | 5,096,113            |
| VEF                                   | 415.5073   | 25,561,050           |
| AAF                                   | 187.2138   | 8,826,743            |
| BIF                                   | 18.4502    | 4,348,682            |
| GMF                                   | 15.5515    | 2,245,282            |
| CDF                                   | 1.0000     | 10,544,380           |
| D15                                   | 10.6896    | 1,339,967            |
| D25                                   | 10.9605    | 919,658              |
| D35                                   | 10.0901    | 492,373              |
| D45                                   | 10.2970    | 1,348,595            |
| <b>Total Consolidated Retirement:</b> |            | <b>\$ 95,351,519</b> |
| <b>Total Guild:</b>                   |            | <b>\$ 95,351,519</b> |