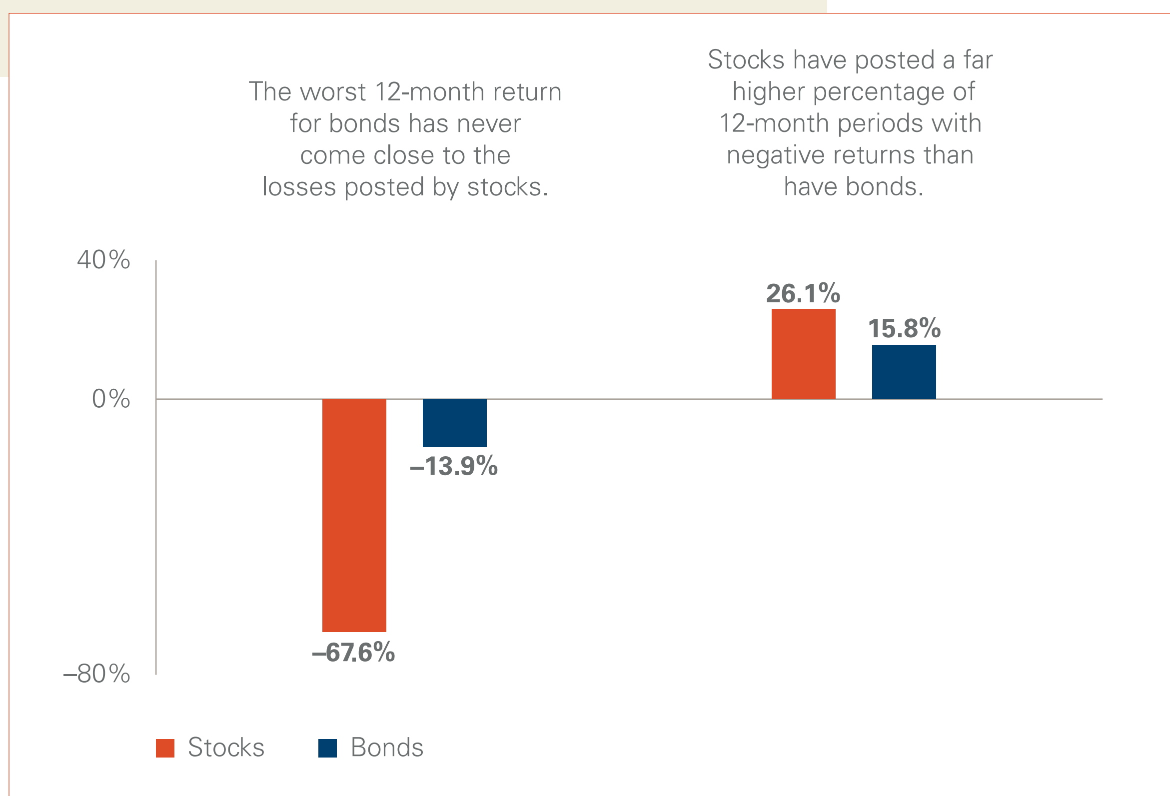
Don’t shy away from bonds. They can be an essential part of your portfolio.

Market volatility does not affect stocks and bonds in the same way. Stocks can experience huge gains, as well as distressing losses. Bonds can help smooth out those rough patches.



Source: Vanguard calculations using data from S&P, MSCI, Citigroup, and Barclays, as of December 31, 2013.

Past performance is no guarantee of future results. The performance of an index is not representative of any particular investment, as you cannot invest directly in an index. The following indexes were used for U.S. stock market returns: S&P 90 Index,1926–March 3, 1957; S&P 500 Index, March 4,1957, through 1974; Dow Jones Wilshire 5000 Index, 1975 through April 22, 2005; and MSCI US Broad Market Index thereafter. For U.S. bond market returns: S&P High Grade Corporate Index, 1926–1968, Citigroup High Grade Index, 1969–1972; Lehman Brothers U.S. Long Credit AA Index, 1973–1975; Barclays U.S. Aggregate Bond Index, 1976–2009; and Barclays U.S. Aggregate Float Adjusted Index thereafter.

Investments in bonds are subject to interest rate, credit, and inflation risk. All investing is subject to risk, including possible loss of principal.

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The bottom line:

Bonds remain one of the very best ways to diversify your portfolio.