



# FINANCIAL PREPAREDNESS

*"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen*

Issue #296  
October 16, 2026

## Bonds

This week I bought a few bonds (short-term investment grade non-callable corporates). It was the first time I've invested in bonds since 2008 and the first time I've ever bought individual bonds in my 31-year career.

The classic asset allocation that investors such as pension funds have traditionally used is 60% in equities and 40% in fixed income. There are several reasons why I've avoided bonds since 2008.

First, at the time, I was using a short-term corporate bond fund managed by Dimensional Fund Advisors. When the financial system (especially banks and brokerage firms) began to collapse in the Fall of 2008, a contagion of collapse began that included firms such as Bear Stearns and Lehman Brothers, both of which heavily relied on overnight funding of a significant amount of their debt. I knew that DFA's bond fund had exposure to such firms, but as I recall, the fund's holdings were updated on DFA's website only quarterly; I wanted to know how much exposure it had *currently* since the value of such bonds was rapidly going to zero. I called DFA (I was an advisor who had been educated about their process and had been approved to offer their mutual funds to my clients) and asked but they couldn't tell me how much exposure my clients had to this toxic debt. *Never again*, I swore, would I not know exactly what my clients were invested in at any given moment. So that

ruled out bond funds.

Second, the response by the federal government (massive bailouts and deficit spending) and the Federal Reserve (massive bailouts, currency printing and zero interest rates) not only virtually guaranteed the unprecedented amount of debt at every level of society and the highest interest rates we've had in about 25 years, it also injected a high degree of moral hazard into the system that will result in the next financial crisis being the worst such crisis in human history. In such a world, I wanted nothing to do with debt.

Although bonds have traditionally provided significant ballast and safety to a portfolio due to their relatively high yields, lower correlation with equities and higher claim on a corporation's assets (or in the case of U.S. Treasuries, the federal government's ability to tax, borrow from the unborn and print currency), the problem with bonds is that their upside is capped at the yield to maturity when you buy the bond (unless interest rates decline in the interim), while their downside could easily go much lower than expected due to inflation and rising interest rates, even to zero in the case of issuer default or currency collapse. Due to personal experience, the Founding Fathers were painfully aware of the risk of financial ruin posed by fiat currency, which is why they required money to be either gold or silver.

So generally, bonds provide the illusion of safety with a net return (after inflation and taxes) that isn't really high enough to move the needle. As a result, until now, I haven't used them in the "barbell" portfolio strategy recommended by Nassim Taleb in one of his books. Namely, you should have a large chunk of your portfolio in very safe assets (e.g., money market mutual funds, precious metals, etc.) that provide protection from negative Black Swans and allow you to live to fight another day, with the rest in higher risk, more volatile assets such as equities that allow you to benefit from positive Black Swans and earn high returns.

Having said that, a very small position in virtually any asset class can help diversify a portfolio, reducing its volatility without significantly reducing its expected return. And under the right conditions, I'd be willing to buy almost anything in my role as a facilitator: I help desperate investors get what they want, but I charge them a high premium to do so. As such, I have to be a contrarian who can ignore the current [stories](#) and is brave enough to go against the crowd and take a lonely trade, and is comfortable taking some informed risk when [fear](#) and uncertainty are high. Most investors simply take the trades that their greedy ego urges them to take. If a contemplated trade makes you wonder if you might be a little crazy, that's not necessarily a bad thing. There is no free lunch in the investment world, and being uneasy with a trade is the price of higher returns.

So the other day when I noticed that the sentiment score of investment grade corporate bonds was only 25 (out of 100, which is bullish), it piqued my curiosity. There's been a lot of talk in the financial news lately about rising interest rates and the fate of the U.S. dollar. It's not necessarily wrong, though oftentimes the story *du jour* is overdone and thus the trade is overcrowded. I checked the yield curve and current bond offerings and found a couple of financially strong companies that weren't financial companies (so little risk of a sudden blowup from a financial crisis) or distracted by [ESG](#) nonsense that had issued

bonds that matured in less than a year that had a yield to maturity of about 4.25%, so I bought a few.

When I've looked at the inventory of bonds in the past and the prices they were trading at, it became apparent to me that the bond market is much more efficient than the stock market, and there is little opportunity for an analyst or advisor to generate much alpha (excess positive return). Additionally, instead of say 5,000 different stocks to analyze, there is a constantly changing inventory of almost unique lots of bonds from those same 5,000 companies, and their coupon, maturity date, yield to maturity, features and available amount are all different. There may be an opportunity for a small advisor such as myself to scoop up a small lot of bonds that another small investor was selling that wouldn't be worth the time of a larger investor to deal with.

But generally, I think my time and energy would be best spent researching equities, where stories have an outsized effect on investor emotions, volatility is significantly higher due to the residual nature of the claim on the company, uncertainty is much greater and investors are much less patient and much more fickle. In the stock market, the same annual return on an investment grade corporate bond could be earned in just one day.

Now, during a financial crisis when the average investor was selling everything at any price just to stop the bleeding, I think there could be plenty of good opportunities in the bond market. However, during such a time, the opportunities in the stock market would be significantly greater and far more plentiful. I also think the opportunities for psychological arbitrage and the ability to exploit the findings of behavioral finance are much greater in the stock market.

So I may continue to nibble at some small lots of bonds as the financial, economic and geopolitical situation becomes increasingly hairy ([this is an excellent article](#) about the [debt doom loop](#) the entire industrialized world is trapped in), but it's just to increase diversification and find a small, short-term place to hide without losing money. I remain focused on waiting for once-in-a-decade (or lifetime) opportunities.

[Follow Me on X](#)

[Newsletter Archive](#)

I would love to hear from you! If you have any comments, suggestions, insight/wisdom, or you'd like to share a great article, please leave a comment.

## Disclaimer

*The content of this newsletter is intended to be and should be used for informational/ educational purposes only. You should not assume that it is accurate or that following my recommendations will produce a positive result for you. You should either do your own research and analysis, or hire a qualified professional who is aware of the facts and circumstances of your individual situation.*

*Financial Preparedness LLC is not a registered investment advisor. I am not an attorney, accountant, doctor, nutritionist or psychologist. I am not YOUR financial planner or investment advisor, and you are*

*not my client.*

*Investments carry risk, are not guaranteed, and do fluctuate in value, and you can lose your entire investment. Past performance is not indicative of future performance. You should not invest in something you don't understand, or put all of your eggs in one basket.*

*Before starting a new diet or exercise regimen, you should consult with a doctor, nutritionist, dietician, or personal trainer.*