Shaun M. Jones, CFP®, CFS

The Bond Myth

Why Traditional Fixed Income No Longer Reduces Volatility or Produces Meaningful Income

Shaun M. Jones, CFP®, CFS

Introduction

What we do

For decades, bonds have been the bedrock of traditional investment portfolios, widely regarded as a tool to reduce volatility and generate reliable income. However, this belief, rooted in *Modern Portfolio Theory (MPT)*, is increasingly outdated.

Bonds no longer serve as an effective hedge against market downturns, and their income-generating ability has diminished in the current economic landscape. Moreover, the income they do produce is taxed at *ordinary income rates*, making them inefficient for many investors.

JONES | Fiduciary Wealth Management

At **Jones Fiduciary Wealth Management (JFWM)**, we do things differently from the mainstream industry—by following what the ultra-wealthy have been doing for **decades, even centuries.**

Instead of relying on outdated financial models, we focus on strategies that actually reduce risk and increase returns, rather than ones that are merely easy to implement for large financial firms.

Introduction

About Us

Shaun M. Jones, CFS, CFP

Shaun M. Jones, CFP®, founder of JFWM, has seen firsthand how the investment industry fails clients during **more than two decades of experience.** One of the biggest contributors to the disconnect and distrust between clients and the financial industry, in his view, is the continued use of bonds to **"reduce risk"** (quotations added by Shaun). Investors are told that bonds are all they need to help protect them in market downturns, but reality seems different to investors. **2022 was no exception**—investors watched the bond portion of their portfolios decline **nearly 20%,** offering no real protection at all from market declines.

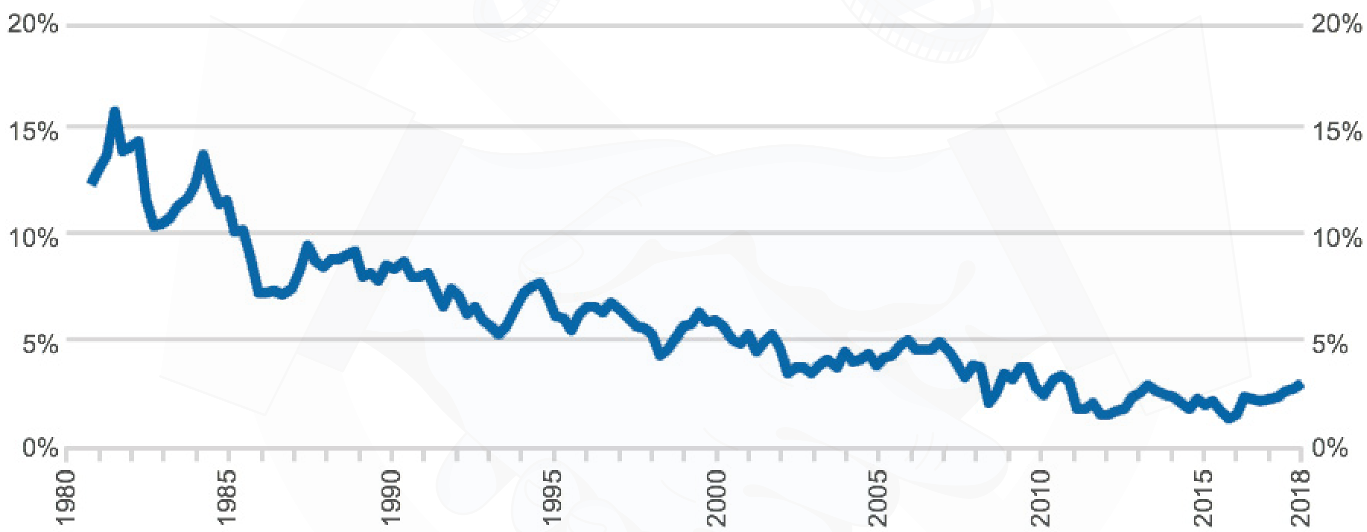
When advisors position bonds as a safe haven but then clients experience significant losses, it erodes trust in the financial system and creates widespread skepticism about industry-standard strategies.

JFWM takes a different approach—one that actually delivers stability and returns rather than relying on outdated, convenient, but ineffective portfolio management methods.

The Historical Role of Bonds in Investment Portfolios

The traditional *60/40 portfolio* (60% equities, 40% bonds) became the standard investment model after the development of *Modern Portfolio Theory (MPT)* in the 1950s. **Harry Markowitz** pioneered MPT based on the idea that diversifying across asset classes can maximize returns for a given level of risk (Markowitz, 1952). The underlying assumption was that bonds provided stability and an uncorrelated counterbalance to stocks.

10 Year Treasury Yield



During the late 20th century, this made sense. Bond yields were high—particularly in the **1980s**, when **U.S. Treasury bonds yielded double-digit returns.** Even as rates declined, falling interest rates led to capital appreciation in bonds, providing an additional tailwind. This dynamic gave investors strong returns while still reducing portfolio volatility.

However, today's environment is starkly different.

Why Bonds No Longer Reduce Volatility or Provide Meaningful Income

1. Bonds Are No Longer an Effective Hedge

Many studies have shown that bonds **no longer provide the stability they once did.** Over the last two decades, the correlation between bonds and stocks has increased, making bonds much less effective as a diversification tool (Ilmanen, 2022).

For instance, in **2022,** both the **S&P 500** (used as an example for the stock market) and the **Bloomberg U.S. Aggregate Bond Index declined—the S&P 500 was down 25%, while bonds dropped nearly 20%**. Investors expecting stability from bonds instead saw their portfolios decline across the board. This collapse of the stock-bond diversification benefit undermines the core premise of MPT.

A study by **AQR Capital Management** found that since 2000, the correlation between stocks and bonds has been **highly unstable,** often moving in the same direction during market turmoil (AQR Capital Management, 2022). This means that relying on bonds to buffer against stock volatility is **no longer a reliable strategy.**

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2. Bond Yields are Low and Tax-Inefficient

For decades, investors could buy high-yielding bonds and live off the interest income. But today's bond yields are insufficient to generate meaningful returns. **The 10-year U.S. Treasury yield hovered between 1% and 4%** for most of the last decade, far below historical averages (U.S. Treasury, 2023).

Even when bond yields appear attractive, they fail to keep pace with inflation and taxation:

Inflation

If inflation is **2-3%** and a bond pays **4%,** the real return is close to zero.

Taxes

Bond income is taxed at *ordinary income tax rates*, which can be as high as **37%** for high earners. Compare this to **qualified dividends and long-term capital gains**, which are taxed at a much lower rate (**0-20%**).

This makes bonds an unattractive income source, especially for investors in high tax brackets.

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3. Rising Interest Rates Hurt Bond Prices

Bond prices move **inversely** to interest rates. When rates rise, bond values fall. This was evident in **2022,** when the Federal Reserve aggressively raised rates, leading to steep bond losses.

Unlike previous decades when falling rates boosted bond returns, we are now in an era where rates have risen, meaning bond investors face both:

Lower prices for existing bonds

Higher reinvestment risk, as new bonds may not keep up with inflation

Recognition of this new environment is evidenced by a **2022 article** by **Morningstar** suggesting that retirees should calculate their retirement income projections using a **2.8% initial withdrawal rate** (Benz et al., 2022).

In **2024**, they updated their suggested withdrawal rate to **3.8%**, citing higher bond yields (as if they will stay this high forever), thus highlighting the **mainstream industry's willingness to continue allowing retirees to hang their retirement success on the fickle nature of bonds.**

Why Traditional Firms Still Use Bonds

Despite these glaring issues, most large investment firms continue to use bonds as their **default tool** for risk reduction. Why? **It is hard to know for sure**, but here are Shaun's best guesses:

1. Easy to Manage Automatically

A stock-bond portfolio is simple to automate, requiring little ongoing management from the firm. Many firms optimize for **efficiency rather than client outcomes.**

2. Regulatory and Industry Norms

Many firms follow a rigid adherence to MPT because it's the industry standard. Advisors are often required to use a "balanced" portfolio, even when it **no longer serves the client's best interests.**

3. Lack of Alternatives

Many traditional firms do not incorporate **alternative investments**, either due to **compliance restrictions** or because they lack **expertise in structuring diversified portfolios beyond stocks and bonds.**

A simple explanation could be that change is difficult and expensive. The industry is expanding so fast that legacy firms can simply set up their marketing nets and catch clients using outdated tools.

Conclusion:
A Better Way to Invest

The era of bonds as a safe haven is over (at least for now). JFWM has carved out a niche by investing client money **the same way we invest our own—the same way the ultra-wealthy have been investing for decades or even centuries.**

References

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