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*by* Bonds Stocks

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## Selection of Bonds and Stocks

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## Selection of Bonds and Stocks

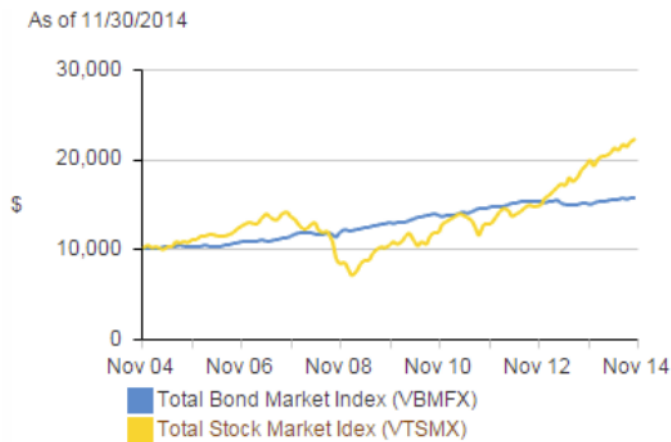
### Introduction

This paper give a financial expert advice from a fund manager's perspective, concerning the best stock and bond investment decision, by Fidelity a financial American multilateral financial services corporation that is situated in Boston. The corporation wants to establish a stable fund founded on the fact that international economic conditions are subject to fluctuations. A stable fund according to Olszewski (2005), assists a company to arrive at a stable capital growth. The stable value fund is a collection of bonds that aims at covering investors against decline in yield or a loss of capital. The suggestions I have presented for Fidelity would assist the company to ensure that the principle value invested by the company into stocks and bonds results in the expected and agreed interest payment independent of the state of the economy.

### Analysis

As a fund manager at Fidelity, my selection of stocks and bonds, as well as the application of the suitable investment strategy for the future market and economic situation would be first guided by the recommendations of Olszewski (2005). According to this economist, bonds, as well as stocks, can be selected and bought in order of preference, and specifically in this case, seven of the bonds and stocks can be added in the portfolio, which bonds totaling to three and stocks to four. I would select a higher number of stocks given that stocks according to Caijing & Yong (2012) generate higher returns in comparison to bonds. It should be noted however, that stocks also have higher risks. This is founded on the fact that stocks <sup>2</sup> can have very steep highs and steep lows, as indicated in Fig 1 below representing results from stock and bond investment by Vanguard over a period of 10 years.

## Growth of \$10,000 invested in stocks vs. bonds for 10 years



**2** Figure 1: Growth of \$10,000 in Vanguard's invested index funds for the total stock market and the total bond market (VBMFX) over a 10-year period (Diffren, 2021).

For the allocation process, and as Caijing & Yong (2012) suggests, the use of capital growth, is more effective. 40 % of the capital can be shared out to stocks whereas 60 % can be allocated to bonds. Allocation is a very critical process in this decision process, based on the fact that it aims at balancing between risks and rewards by apportioning the asset of the portfolio in line with the risk tolerance, goals, and investment horizon of the company in focus, in this case Fidelity. The portfolio can then attain stability in the growth of capital based on the idea that it will be well distributed. For the selection of stocks, the top down approach can be used. According to Tobe (2004), this approach deals mainly with an organization's performance as a whole. The approach would also involve taking the objective of the fund and then distributing it into smaller details that can be solved.

According to Anspach (2020), if one intends to use a moderate approach in the allocation of funds, like in this case for Fidelity, the expected returns are 7% or more. The allocation percentage that is expected and as has been suggested in this analysis is 60% of the entire

portfolio to stocks. However, as Anspach (2020), also <sup>1</sup> expect that at some point with this approach the company involved, that is Fidelity, would experience a calendar quarter in which its portfolio loses close to 30% or more, and maybe even through <sup>1</sup> an entire calendar year in which its portfolio is low by as much as 60%. This implies that for every \$10,000 invested, the value could reduce to as much as \$4,000. However, over several years, because this is a long term investment, <sup>1</sup> the down years (which typically in historical measures, take place 30% of the investment period) will be offset by the positive years (which typically in historical measures, take place 68% of the investment period).

As a fund manager at Fidelity, I would also after putting stocks into consideration, give sufficient preference to treasury bonds based on the fact they are long-term investment. This is founded on the fact and as supported by Tobe (2004) that bonds can be useful cushions in the event of economic shocks. The coupon is not high is not high in this case, based on the fact that a company pays it at a rate of 1.25 %, with a maturity term of 2 to 3 decades. The returns from a 30-year bond can be calculated therefore as 2.05 %.

#### Conclusion

The deductions from these calculations is that treasury bonds are better than stocks, with the economic pattern of future coming years expected to rise as a result of the government being able to absorb the fluctuations. Bonds are also much more secure as they are insured, and this makes the company or agency offering the bonds to be contractually obligated to protect investors from the loss of capital or interest. Bonds can be regarded as stable value funds. This implies that in a market recession or in the case of high volatility, the value of the stable fund is certain. I would expect the market to maintain a steady growth. Growth investing an efficient

strategy, as a result, since it allows investments to grow turning into bigger earning yields of bonds and stocks in the future.

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