

Why Own Bonds

Income and Ballast for Your Portfolio

A bond is a loan. When you own one, you're the lender. Bonds are not the growth engine of a portfolio.

The jobs bonds do

Income. Bonds pay a known stream of interest.

Stability. A bad year for high-quality bonds is a decline of a few percent. Stocks can fall 30% or more. That's why bonds are called ballast: they keep the boat upright.

The spending bridge

For retirees, the danger isn't a market decline itself. It's being forced to sell stocks during one to pay the bills.

Years 1–2	Cash, T-bills, short-term Treasuries. Known spending, almost no price risk. Refilled by income and maturing bonds.
Years 3–7	Intermediate-term, high-quality bonds. The shock absorber.
Beyond 7	Stocks. The growth engine that refills the bond bucket in good years.

Diversification. In recessions and financial panics, high-quality bonds have tended to hold up or rise.

Rebalancing fuel. When stocks drop, bonds give you something to sell so you can buy stocks at lower prices.

What you keep after taxes

The same muni is a big win for one household and a wash for the other.

After-tax yield	Maya and Dev top bracket	Linda and Tom moderate bracket
California muni	4.15%	4.15%
Treasury	3.13%	4.12%
Corporate	2.79%	4.17%
CD	1.88%	2.82%

Hypothetical households. Approximate yields as of early October 2026: 10-year California muni 4.15%, 10-year Treasury 5.28%, investment-grade corporate 6.07%, CD 4.10%. Assumes 2026 federal, net investment income tax, and California rates.

Four questions to ask about your bonds

1. What job are your bonds doing: income, stability, diversification, or funding a specific goal?

2. How many years of spending or upcoming goals do they cover?
3. Is each type of bond held in the account that suits its tax treatment?

4. Does your tax bracket favor municipal bonds, Treasuries, or neither?

Bonds don't need to be exciting. They need to do the job your plan assigned them.



Read the full guide
affinity.financial/why-own-bonds