



October 2010

**Ask a trust officer:  
Treasury bonds**

DEAR TRUST OFFICER:

Are Treasury bonds my safest choice in today's market? —RISK-AVERSE INVESTOR

DEAR RISK-AVERSE:

Your question has oversimplified the problem. Bonds are subject to default risk—the possibility that the issuer will fail to meet interest or principal payment obligations. On this measure, yes, Treasury bonds are your safest choice.

However, bonds are also subject to interest rate risk. The value of any bond, on paper, will fall as interest rates rise. Interest rates today have nowhere to go but up. If the bond is held to maturity, a paper loss is of no consequence to the investor. But if the bond must be sold early, the investor will receive less than a return of his original investment.

How big a loss is possible? One example occurred when Fed Chairman Paul Volcker was fighting inflation by dramatically boosting interest rates. From June 30, 1979, to September 30, 1981, the 10-year Treasury bond lost 10.8% of its value, according to *The Wall Street Journal*. Inflation is not expected to be a problem anytime soon, however. More recently, as the economy recovered under President Clinton, from October 31, 1993, to November 30, 1994, the 10-year Treasury fell 10.6%.

Economic recovery is something we all hope for, yet for bond investors there could be hidden downsides. Today's low interest rate environment will have to come to an end sometime.

Investing in bonds or stocks today can be daunting. To learn more about our capabilities in this area, we invite you to come in to speak with our investment professionals.

*Do you have a question concerning wealth management or trusts?* Send your inquiry to [dave.fisher@bankibt.com](mailto:dave.fisher@bankibt.com).