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# Where to Turn When Bonds Aren't the Investment They Used to Be

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**In an environment of rising interest rates, bonds aren't the shiny penny they once were. So some folks are looking into annuities, including fixed-index annuities, instead.**

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Bonds have long been viewed as a great alternative for people who were in search of a good—and relatively conservative—investment.

They provided a nice way to balance the portfolio, so that a steep drop in the stock market—like we experienced in 2008—wouldn't do quite as much damage to your overall financial picture as it would if you owned nothing but stock.

But times may be changing, and bond investors could be about to discover that every investment vehicle—bonds included—has a downside.

For a long time, we've been in a low interest rate environment; so low, in fact, that rates really couldn't go any lower.

Now it appears that interest rates may be headed in the opposite direction, and as they rise, bonds can lose market value. Here's why: When you buy a bond, you are essentially lending money to a company or a government entity for a fixed term at a fixed interest rate.

That sounds simple enough. But if your bond is paying a low interest rate—say 2%—and new bonds being issued are paying higher than that, then no one may want to buy your bond if you want or need to sell it before the maturity date. And so the price of that bond can fall.

That seemingly conservative investment maybe wasn't a conservative as so many people thought.

So that's the bad bond news. The question then becomes: What do you do about this? Where do you go to find a reasonably (though not completely) safe place for your money that could still provide a decent return?

One possibility to explore is annuities. Of course, annuities come in various forms, but there's a type of fixed-index annuity that can provide competitive interest credits without the interest-rate risk associated with bonds.

With one of these annuities, an investor is able to take advantage of market-linked interest credits and when in retirement, receive a steady income stream that cannot be outlived. These insurance products are tied to a specific market index that allows consumers to receive a limited level of interest credits based on market gains. And because the money is never actually invested in the market, their principal is protected from downside market risk.

Are there drawbacks? Absolutely. These products often have a cap that limits the interest earnings that you can enjoy. If the index's return is negative, no loss is posted to your account. If the index's return is positive, interest is credited to your account—but with a cap. It can only go so high and no higher.

As with any financial product, you should know what you're getting. Here are some questions to ask before buying:

- What is the guaranteed minimum interest rate?
- Which index will determine the amount of my interest credits?
- Will the interest credits be calculated annually, quarterly or for some other length of time?
- What are the surrender penalties and tax implications of an early exit from the contract?
- Will the insurance company have the right to lower the cap at some point in the future, and by how much?

Finally, be sure to talk with your financial professional and a tax adviser about how a fixed-index annuity might fit with your overall retirement plan, particularly with regard to taxes and inflation.

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*Ronnie Blair contributed to this article.*

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