

Fixed Income Winners and Losers

Performance of various fixed-income investments, 1997-2011

Highest Return
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Lowest Return

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
15.9% Long Term Gov't Bonds	20.2% International Bonds	4.7% Short Term Bonds	21.5% Long Term Gov't Bonds	10.6% Long Term Corp. Bonds	24.8% International Bonds	29.0% High Yield Corp. Bonds	14.6% International Bonds	7.8% Long Term Gov't Bonds	11.8% High Yield Corp. Bonds	10.8% International Bonds	25.9% Long Term Gov't Bonds	58.2% High Yield Corp. Bonds	15.1% High Yield Corp. Bonds	28.2% Long Term Gov't Bonds
12.9% Long Term Corp. Bonds	13.1% Long Term Gov't Bonds	4.7% Treasury Bills	13.5% Aggregate Bonds	7.6% Int. Term Gov't Bonds	17.8% Long Term Gov't Bonds	18.7% International Bonds	11.1% High Yield Corp. Bonds	5.9% Long Term Corp. Bonds	6.8% International Bonds	10.1% Int. Term Gov't Bonds	13.7% Aggregate Bonds	12.9% Municipal Bonds	12.4% Long Term Corp. Bonds	17.9% Long Term Corp. Bonds
12.8% High Yield Corp. Bonds	10.8% Long Term Corp. Bonds	2.4% High Yield Corp. Bonds	12.9% Long Term Corp. Bonds	6.7% Aggregate Bonds	16.3% Long Term Corp. Bonds	5.3% Municipal Bonds	8.7% Long Term Corp. Bonds	3.5% Municipal Bonds	4.8% Municipal Bonds	9.9% Long Term Gov't Bonds	13.1% Int. Term Gov't Bonds	4.2% International Bonds	10.1% Long Term Gov't Bonds	10.7% Short Term Bonds
9.6% Aggregate Bonds	10.2% Int. Term Gov't Bonds	-1.8% Int. Term Gov't Bonds	12.6% Int. Term Gov't Bonds	5.3% High Yield Corp. Bonds	12.9% Int. Term Gov't Bonds	5.3% Long Term Corp. Bonds	8.5% Long Term Gov't Bonds	3.0% Treasury Bills	4.8% Treasury Bills	9.0% Aggregate Bonds	10.3% International Bonds	3.0% Long Term Corp. Bonds	7.1% Int. Term Gov't Bonds	9.8% Aggregate Bonds
9.2% Municipal Bonds	10.0% Aggregate Bonds	-2.1% Municipal Bonds	11.7% Municipal Bonds	5.1% Municipal Bonds	11.8% Aggregate Bonds	2.4% Int. Term Gov't Bonds	4.5% Municipal Bonds	2.9% Short Term Bonds	4.7% Short Term Bonds	5.2% Short Term Bonds	8.8% Long Term Corp. Bonds	0.4% Short Term Bonds	5.9% Aggregate Bonds	9.5% Long Term Gov't Bonds
8.4% Int. Term Gov't Bonds	6.5% Municipal Bonds	-2.6% Aggregate Bonds	6.5% Short Term Bonds	4.9% Short Term Bonds	9.6% Municipal Bonds	2.2% Aggregate Bonds	3.5% Aggregate Bonds	2.8% Aggregate Bonds	3.2% Long Term Corp. Bonds	4.7% Treasury Bills	2.9% Short Term Bonds	0.1% Treasury Bills	5.8% International Bonds	6.9% International Bonds
5.7% Short Term Bonds	5.6% Short Term Bonds	-5.3% International Bonds	5.9% Treasury Bills	3.8% Treasury Bills	2.0% Short Term Bonds	1.4% Long Term Gov't Bonds	2.3% Int. Term Gov't Bonds	2.7% High Yield Corp. Bonds	3.1% Int. Term Gov't Bonds	3.4% Municipal Bonds	1.6% Treasury Bills	-2.4% Int. Term Gov't Bonds	2.4% Municipal Bonds	5.0% High Yield Corp. Bonds
5.3% Treasury Bills	4.9% Treasury Bills	-7.4% Long Term Corp. Bonds	-1.3% International Bonds	3.7% Long Term Gov't Bonds	1.6% Treasury Bills	1.2% Short Term Bonds	1.2% Treasury Bills	1.4% Int. Term Gov't Bonds	3.1% Aggregate Bonds	2.6% Long Term Corp. Bonds	-2.5% Municipal Bonds	-3.6% Aggregate Bonds	0.3% Short Term Bonds	0.2% Short Term Bonds
-1.4% International Bonds	1.9% High Yield Corp. Bonds	-9.0% Long Term Gov't Bonds	-5.9% High Yield Corp. Bonds	-3.0% International Bonds	-1.4% High Yield Corp. Bonds	1.0% Treasury Bills	1.2% Short Term Bonds	-7.3% International Bonds	1.2% Long Term Gov't Bonds	1.9% High Yield Corp. Bonds	-26.2% High Yield Corp. Bonds	-14.9% Long Term Gov't Bonds	0.1% Treasury Bills	0.0% Treasury Bills

- Aggregate Bonds
- High Yield Corporate Bonds
- Intermediate Term Govt. Bonds
- International Bonds
- Long-Term Corporate Bonds
- Long-Term Government Bonds
- Municipal Bonds
- Short-Term Bonds
- Treasury Bills

Fixed-income performance reversals are common

It is extremely difficult to predict which category of bonds will be the best or worst performer in any given year. The performance of any fixed-income investment can have drastic periodic changes. Investors could potentially diminish their returns by attempting to follow last year's winner.

Furthermore, investors who have an asset allocation policy consisting of different asset classes such as stocks and bonds may still not be diversified. Therefore, branching out within each asset class may further lessen overall portfolio risk.

Diversified bond funds might alleviate portfolio volatility

The image illustrates the performance of various fixed-income instruments in relation to one another from 1997 to 2011. The data shows it is impossible to predict the winners for any given year. For example, high-yield corporate bonds were the worst performers in 2007 and 2008, but rose to become the best-performing investment in 2009 and 2010. While aggregate bonds have never been the top performer in any of the years examined, their performance has remained fairly consistent, with minimal swings when compared with other categories such as long-term and international bonds.

It can be beneficial to hold a fund that is diversified across several types of bonds. This might reduce portfolio risk while allowing for more consistent performance over time.



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Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Diversification does not eliminate the risk of experiencing investment losses. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. With corporate bonds, an investor is a creditor of the corporation and the bond is subject to default risk. High-yield corporate bonds exhibit significantly more risk of default than investment grade corporate bonds. Municipal bonds may be subject to the alternative minimum tax (AMT) and state and local taxes, and federal taxes would apply to any capital gains distributions. International bonds are not guaranteed. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards.

Source: Long-Term Government Bonds—20-year U.S. government bond; Intermediate-Term Government Bonds—5-year U.S. government bond; Treasury Bills—30-day U.S. Treasury Bill; High-Yield Corporate Bonds—Barclays domestic corporate high-yield bond index; Corporate Bonds—Ibbotson Associates long-term high-grade corporate bond index; International Bonds—Citigroup non-U.S. world government bond index; Municipal Bonds—Barclays municipal bond index; Short-Term Bonds—Barclays short treasury index; Aggregate Bonds—Barclays aggregate bond treasury index. An investment cannot be made directly in an index.

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