THRIFT SAVINGS PLAN
YOUR PLAN ★ YOUR FUTURE

HIGHLIGHTS

October 2013

Investing in Bonds? Don't Find Yourself in a Bind.

If you listen to or read the financial news, you've probably heard it countless times: "When interest rates rise, bond prices fall." Have you ever wondered what it means? You should know that when you invest in the F Fund (or any of the L Funds*), you're putting at least some of your money in bonds. That's why it's important to know the basic terms, the benefits, and the risks associated with this type of investment.

What is a bond? When you invest in a bond, you're making a loan to an organization with the understanding that you will get paid back— with interest —after a certain period of time. Most bonds offer a **fixed interest rate** or **coupon rate**, which stays the same for the life of the loan. A bond also has a dollar amount associated with it, known as its face value or **par value**, that is usually $1,000. Finally, a bond has a maturity date, which means that if you hold onto it until that date, you'll get back the par value along with the interest that was promised. The interest generally pays twice a year over the life of the bond. For example, if the par value of your bond is $1,000 and the bond offers a 5% interest rate, the bond would pay you $25.00 twice a year. A bond usually has a maturity date between 1 and 30 years.

What affects bond prices? Interest rates and inflation expectations affect the value of your bonds. As interest rates rise, the value of your bond falls, and vice versa. This is called **interest rate risk**. Let's say you buy a bond that pays 6% interest. A few months later, interest rates rise to 8%. Because interest rates rose an additional 2%, you will lose money if you sell your bond at that time. That's because no one is going to want to buy your 6% bond when they can get a bond that pays 8%. Conversely, if you buy a bond that pays 8% interest and the interest rate falls to 6%, you'll still earn 8% on your bond, which increases your bond's value compared to any new bonds issued at that time. Even though the F Fund doesn't sell its bonds every day, their values do rise and fall. That's what accounts for the change in share price. In fact, during one 6-month period in 1979-1980, the index the F Fund tracks (Barclays Capital U.S. Aggregate Bond Index) fell 12.5%.

What's the benefit? While bonds do have some risks associated with them, they are generally considered less risky than other investment options. Because a bond has a stated face value and a maturity date, at least you know that in most instances, you'll get back the money you invested. The same cannot be said about investing in stocks. For this reason, bonds are a good diversifier during erratic periods in the stock market.

* *The F Fund makes up a portion of every L Fund. So if you are investing in any of the L Funds, you are also investing in the F Fund.*

Separation Anxiety?

Retirement is a big decision. If you're thinking of separating from Federal service, consider keeping your funds in the TSP. You can as long as your account balance is $200 or more when you separate. Leaving your money with the TSP means you'll:

- be able to manage your account using interfund transfers;
- continue to invest and accrue earnings while enjoying the TSP's low administrative expenses, which are lower than any similar plan; and
- be able to transfer money into your TSP account from IRAs and other eligible employer plans.

Don't Forget to Check...

When you review your TSP statement this quarter, don't forget to verify your:

- name and address
- date of birth
- retirement coverage
- employee status; and
- service required for vesting.

If this information is incorrect, you could experience delays when you wish to begin withdrawing your TSP funds. To correct any of your personal information, contact your agency's Human Resources Office or your service Personnel/Payroll Office. If you are a separated participant, contact the TSP.

What's the risk? Some investors think that bonds are always a safe choice, but they do carry some risk. Interest rate risk means that if you sell your bonds before they reach their maturity date in a market where interest rates are rising, you'll probably lose money. There's also another risk: The organization you invest in could default, making it unable to pay back its bonds. As a result, you would lose the money that you loaned to it. **A fixed interest rate bond doesn't guarantee a fixed price.**

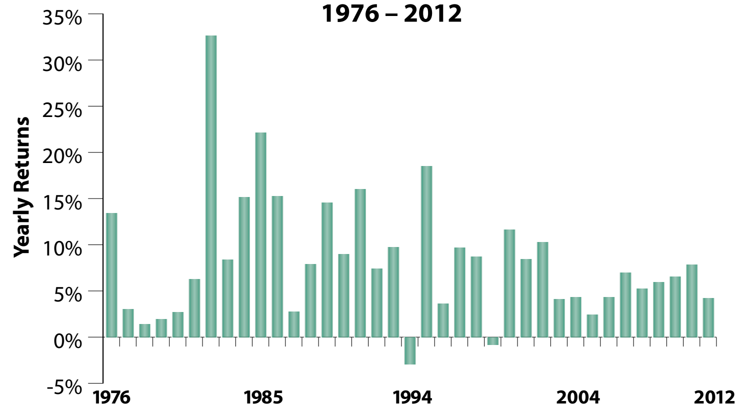
What does this mean for your TSP account?

Remember, whether you're investing in the F Fund directly, or have money allocated to it because you're in one of the L Funds, you're investing in bonds. The F Fund is an excellent way to diversify your TSP portfolio; however, you should be mindful of how you manage it. If your money is in the F Fund at a time when interest rates are moving up, your TSP account could fall in value.

We all know that there's no crystal ball when it comes to investing. Just be sure that when you invest, you understand what you're getting.

To learn more about the F Funds, or the benefits and risks associated with any of the other TSP investment options, visit the Investment Funds section of our website at tsp.gov.

Barclays Aggregate Bond Index Yearly Returns 1976 – 2012



Source: Bloomberg Finance L.P., 2013.

Rates of Return

	L 2050	L 2040	L 2030	L 2020	L Income	G Fund	F Fund	C Fund	S Fund	I Fund
Monthly 2013										
Jan	4.63%	4.11%	3.56%	2.83%	1.10%	0.13%	– 0.56%	5.18%	6.96%	4.45%
Feb	0.56	0.54	0.49	0.41	0.27	0.13	0.51	1.36	1.00	– 0.99
Mar	2.71	2.44	2.12	1.69	0.73	0.13	0.07	3.75	4.69	0.88
April	2.41	2.13	1.91	1.58	0.67	0.12	1.02	1.93	0.65	5.32
May	0.53	0.51	0.43	0.33	0.19	0.12	– 1.78	2.34	2.71	– 3.12
June	– 1.59	– 1.40	– 1.20	– 0.94	– 0.30	0.14	– 1.53	– 1.34	– 0.99	– 2.77
July	4.83	4.29	3.72	2.95	1.21	0.18	0.13	5.10	6.88	5.29
Aug	– 2.11	– 1.87	– 1.60	– 1.22	– 0.39	0.18	– 0.48	– 2.89	– 2.76	– 1.31
Annual 2003 – 2012										
2003	–	–	–	–	–	4.11%	4.11%	28.54%	42.92%	37.94%
2004	–	–	–	–	–	4.30	4.30	10.82	18.03	20.00
2005	–	–	–	–	–	4.49	2.40	4.96	10.45	13.63
2006	–	16.53	15.00	13.72	7.59	4.93	4.40	15.79	15.30	26.32
2007	–	7.36	7.14	6.87	5.56	4.87	7.09	5.54	5.49	11.43
2008	–	– 31.53	– 27.50	– 22.77	– 5.09	3.75	5.45	– 36.99	– 38.32	– 42.43
2009	–	25.19	22.48	19.14	8.57	2.97	5.99	26.68	34.85	30.04
2010	–	13.89	12.48	10.59	5.74	2.81	6.71	15.06	29.06	7.94
2011	–	– 0.96	– 0.31	0.41	2.23	2.45	7.89	2.11	– 3.38	– 11.81
2012	15.85	14.27	12.61	10.42	4.77	1.47	4.29	16.07	18.57	18.62

The returns for the TSP funds represent net earnings after deduction of administrative expenses and, in the cases of the F, C, S, I, and L Funds, after deduction of trading costs and investment management fees. Additional information about the TSP funds, the related indexes, and their respective 1-, 3-, 5-, and 10-year returns can be found in the TSP Fund Information sheets on the TSP website.

The Lifecycle funds, which are invested in the individual TSP funds (G, F, C, S, and I‡), were implemented on August 1, 2005; therefore, the first annual returns are for 2006.

‡ The Government Securities Investment (G) Fund; the Fixed Income Index Investment (F) Fund; the Common Stock Index Investment (C) Fund; the Small Capitalization Stock Index (S) Fund; the International Stock Index Investment (I) Fund

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