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Should individual investors hold bonds directly or through mutual funds?

How many bonds must an investor hold in his/her portfolio to eliminate the idiosyncratic risk and retain the systematic component of risk associated with the fixed-income asset class? Modern portfolio theory teaches that the mean efficient frontier can be achieved by holding a combination of the risk-free security and the market portfolio. From a practical perspective, an individual investor can hold the market portfolio by investing in a number of mutual funds, each one providing exposure to a particular asset class. However, the diversification provided by mutual funds comes at a cost. Typically, bond mutual funds hold hundreds of individual positions and charge investors a percentage of assets under management. Is the level of diversification provided by a typical bond fund optimal? Would individual investors be better off buying individual bonds, and paying a one-time commission rather than paying an annual fee to a mutual fund? How many bonds are required to build a "sufficiently" diversified portfolio?