Swipe >>>

Understanding *Bonds:* Simplified Guide

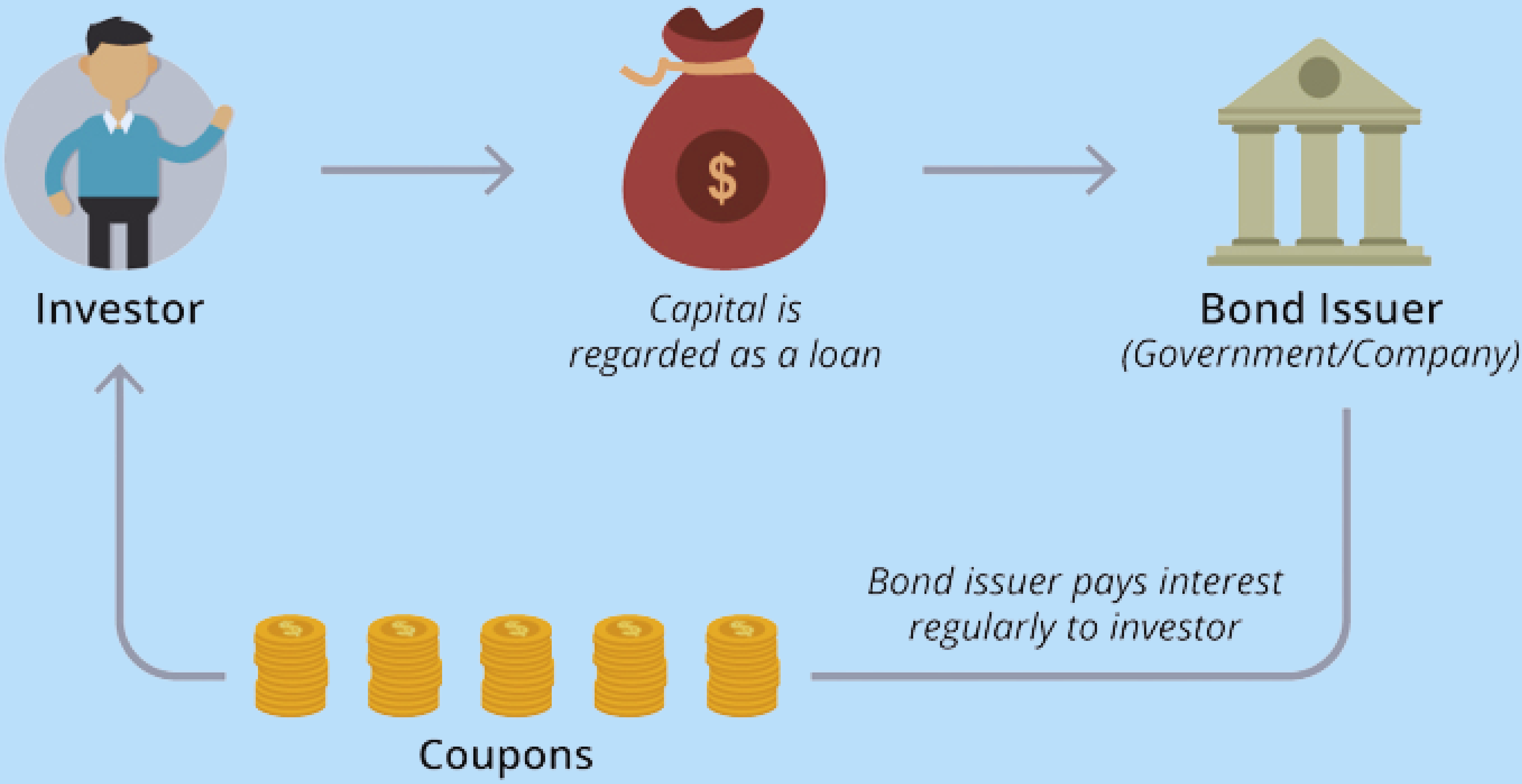
Swipe >>>

What are Bonds?

- **Bonds are loans you make to governments, corporations, or municipalities.**

- **You lend your money for a fixed period and receive interest payments at regular intervals.**

- **At the end of the term, you get your principal back.**



Swipe >>>

Why invest in bonds?

- **Steady and predictable income stream.**
- **Diversify your portfolio and reduce overall risk.**
- **Capital protection from inflation and market volatility.**
- **Options to match your goals and risk appetite.**
- **Safer than stocks, as you get paid first if the borrower goes bankrupt.**
- **Balances your portfolio, as they do well when stocks do poorly.**

Swipe >>>

Types of Bonds

Main types of bonds:

- **Government bonds: Safest and most liquid, low-interest rates, long maturities.**
- **Corporate bonds: Higher interest rates, shorter maturities, higher credit risk.**
- **Municipal bonds: Lower interest rates, potential tax benefits.**
- **Asset-backed securities: Backed by assets like mortgages, varying interest rates, maturities based on asset quality.**

Swipe >>>

Evaluating Bonds Factors to consider:

- **Credit rating: Indicates the issuer's ability to repay debt. A higher rating means lower risk and lower return, and vice versa.**

- **Yield: Annual return from the bond, higher yield means higher income and risk.**

Swipe >>>

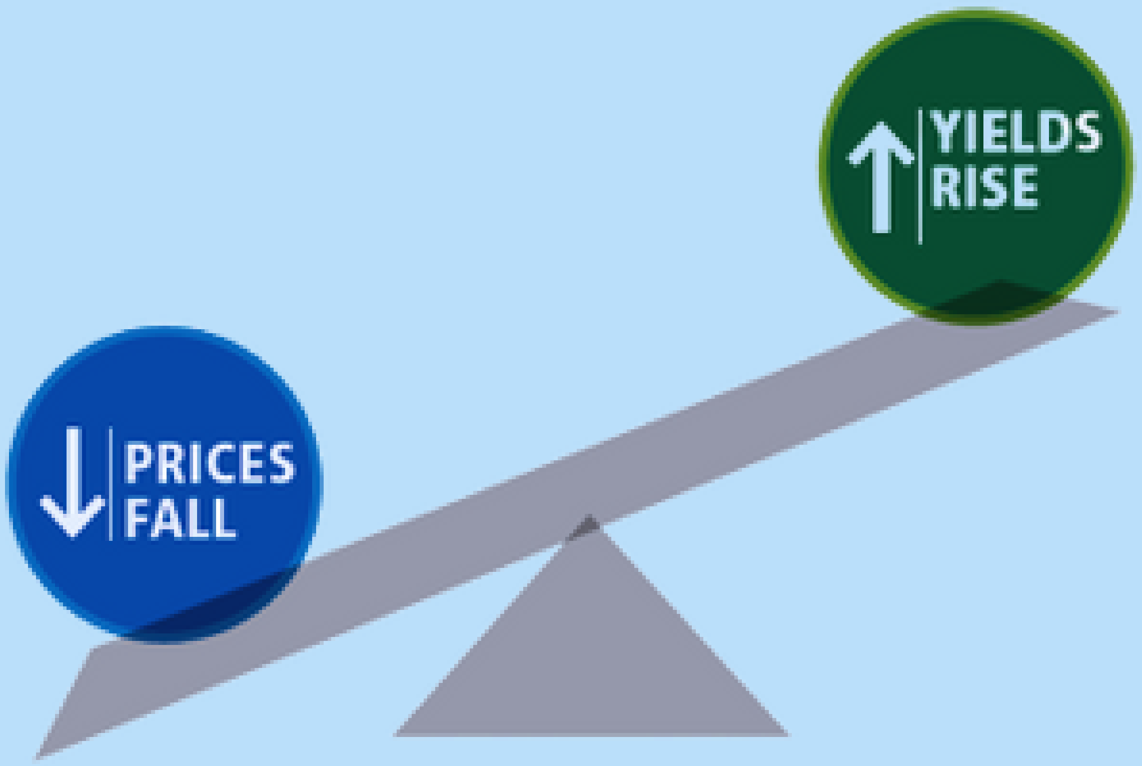
Understanding Bond Terminologies:

- **Coupon rate: Fixed annual interest rate.**
- **Maturity date: Repayment date, can range from months to decades.**
- **Face value: Amount lent, usually $1,000 per bond.**

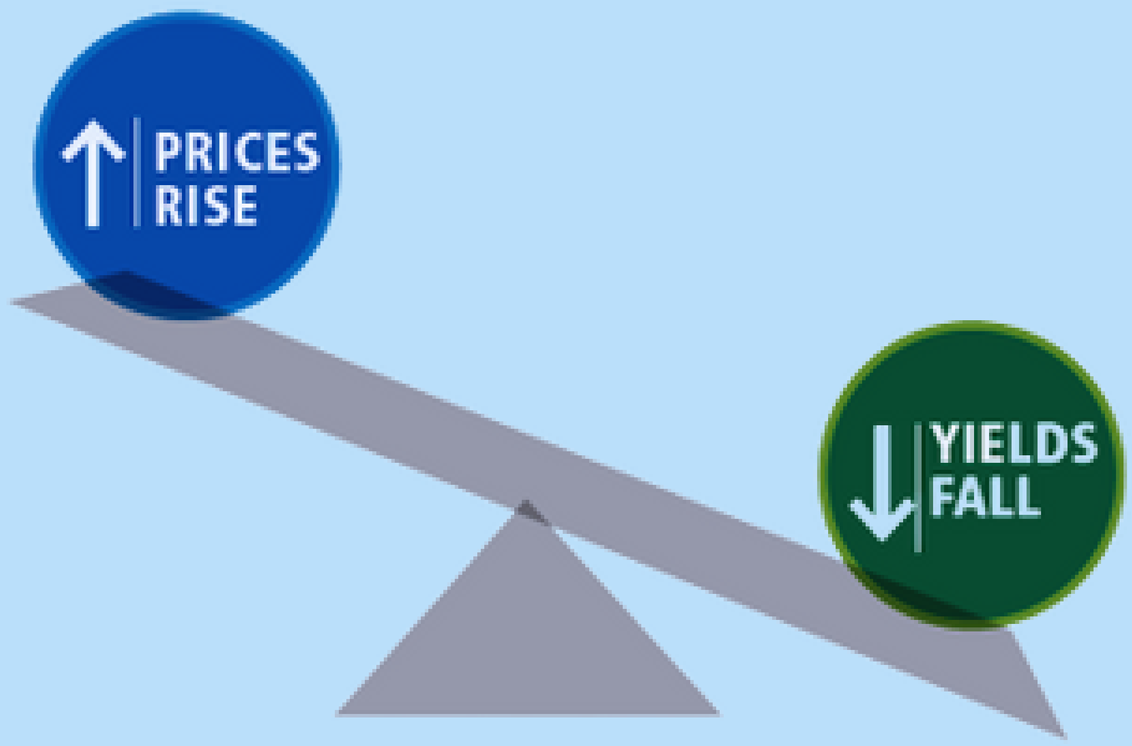
- **Market price: Fluctuates based on demand, interest rates, credit ratings, etc.**

- **Duration: Measures price sensitivity to interest rate changes.**

IF INTEREST RATES RISE:



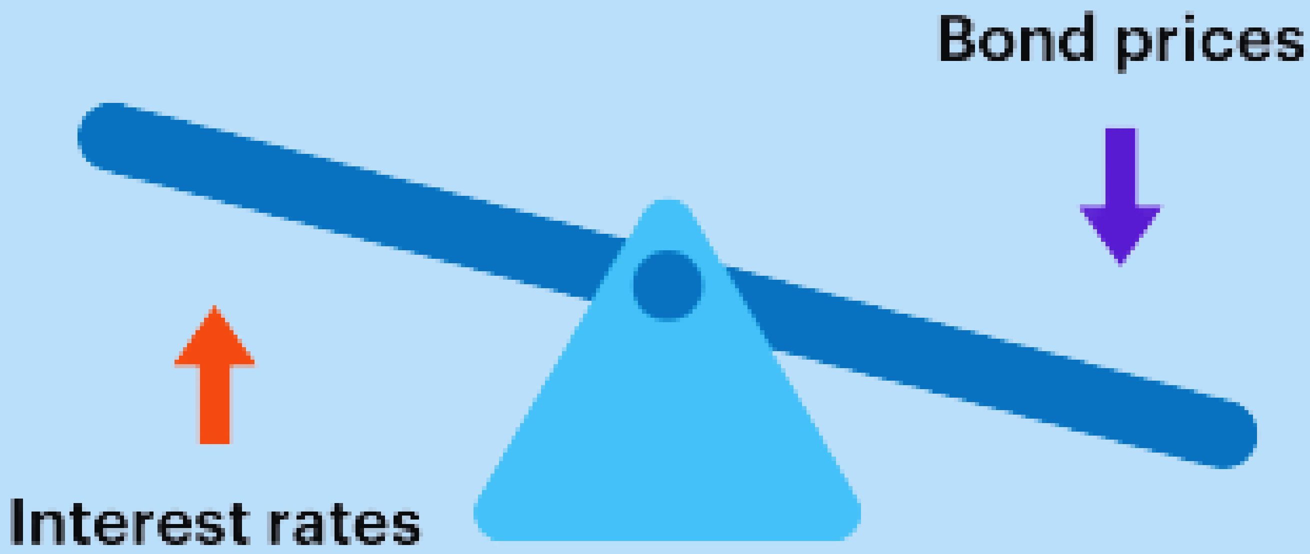
IF INTEREST RATES FALL:



Swipe >>>

Common Risks of Investing in Bonds:

- **Interest rate risk: Bond prices may fall with rising interest rates.**



- **Credit risk: Risk of the issuer defaulting on payments or downgraded credit rating.**

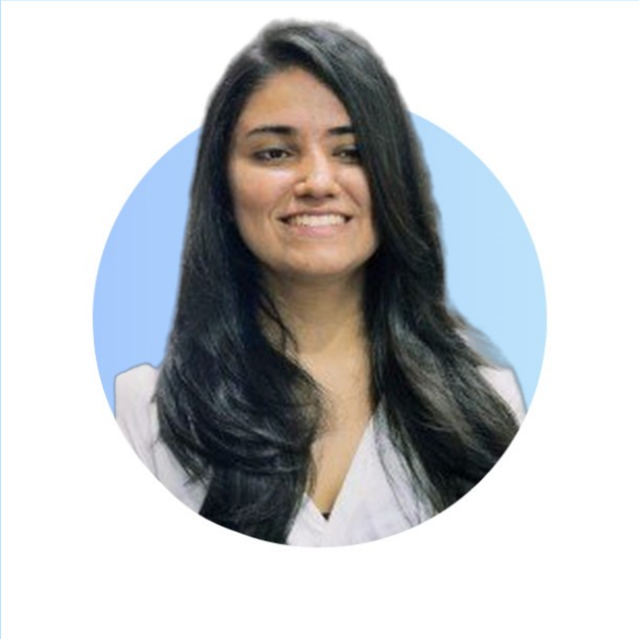
Rating	Classification
AAA, AA+, AA, AA-	High Grade
A+, A, A-, BBB+, BBB, BBB-	Investment Grade
BB+, BB, BB-	Near Prime
B+, B, B-	Sub Prime
CCC+, CCC, CCC-	Credit Watch
CC, C, D	Distressed

Swipe >>>

- **Inflation risk: Erosion of bond income and principal's purchasing power.**

- **Liquidity risk: Difficulty in buying or selling bonds quickly and at a fair price.**

Nisha Pobaru



Was this helpful?

Leave a comment below &
Follow for more such content.