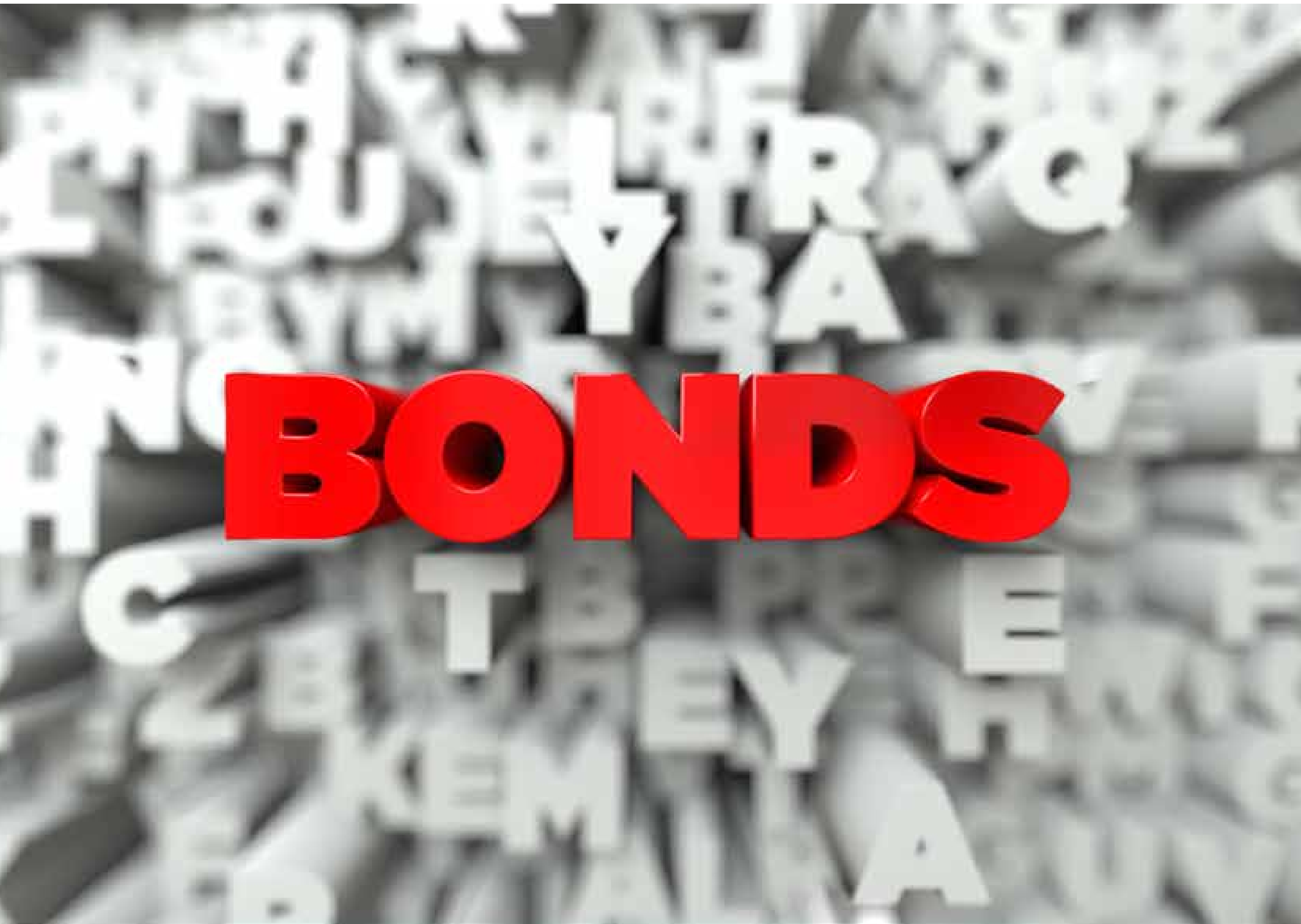
Bonds (or fixed income)

When an investor purchases a bond, he or she is lending money to a borrower. In return for the loan, the borrower promises to pay the investor a specified rate of interest (coupon) during the life of the bond and to repay the face value of the bond (the 'par' value) when it matures.



What are the benefits of investing in Bonds?

1. Capital protection

The basic principle of bonds is the repayment of principal at maturity.

2. Income generation

A diversified bond portfolio can provide income with a lower level of risk than shares, and may offer higher income than cash and term deposits.

3. Diversification

Bonds also help reduce volatility and preserve capital, especially when combined with exposure to shares.

4. Interest rates

When interest rates fall an existing bond's coupon rate will usually become more appealing to investors, driving the price up.

What are the risks of investing in Bonds?

1. Interest rates

The risk of capital loss in a rising interest rate environment.

2. Credit risk

The risk that the borrower may be unable to fulfil its financial obligations i.e. to pay interest when it's due and to repay the principal when it's due.

3. Derivatives

Carry the risk of default by the counterparty, losses may be magnified and their valuation may not move in line with the underlying asset.

4. Financial health of the issuer

If the issuer encounters financial problems, or investors think that it might, the price they are willing to pay for the issuer's bonds may fall.

5. Inflation

When the inflation rate rises, the price of a bond tends to drop and vice-versa.

Quick Facts

Fact #1

A typical Australian balanced fund will have around 20% exposure to Australian and International fixed interest.

Fact #2

Bonds can be accessed through unlisted managed funds (active or passively managed), through retail fixed interest brokers and exchange traded products (treasury bonds and index bonds).

Fact #3

Bonds sit within the defensive component of a portfolio and exhibit higher levels of volatility (risk) than cash but lower volatility than most other asset classes (shares, property, credit).

Fact #4

At the end of 2014 global bonds (public debt & securitised and non-securitised loans) represent $159 trillion out of the total $228 trillion of capital stock (bonds and shares). (Source: Panthera Solutions)

Fact #5

The value of turnover in Australian bond markets (physical) was around $2.5 trillion and in interest rate swaps and bond futures markets (derivatives) was each around $9 trillion in 2015.

Looking for Financial Advice?

In an ever increasingly complex financial and legislative world, our mission is to provide you with clear, concise and tailored strategic advice.

We pride ourselves on working in the very best interest of our clients by tailoring solutions to meet their needs. We provide high quality investment and financial planning advice, driven by strategy – not product – at a reasonable cost.

t 02 9328 3322
f 02 9328 3323
e team@lfma.com.au
w www.logicalfinancial.com.au

Suite 21, Level 2, 8 Hill Street,
Surry Hills NSW 2010
PO Box 103
DARLINGHURST NSW 1300

Get in touch