

WITH INTEREST RATES RISING YOU SHOULD KNOW OUR BONDS

With interest rates rising, you should know your bonds!

Bonds are an important investment option for retirees.

They can provide a steady, dependable return. Usually bonds don't have the downside of a huge stock market fall!

With interest rates rising, bonds can be an especially important source of income in retirement.

How a bond works

Bonds are a fixed-income security. A bond is an IOU that investors can buy and sell. All bonds have a fixed maturity date and pay interest until the principal comes due or the bond is "called" by the issuer.

Bonds represent a huge marketplace. The federal government alone has created more than \$4 trillion in U.S. government debt using bonds. In addition, there are corporate bonds, foreign government bonds, as well as state and local government bonds.

Many different bond investments

There are many different types of bond investments. Here's a quick summary of options:

- U.S. Treasuries. These are bonds which are loans to the federal government, for different terms, or maturity dates. Usually, the longer the term the higher the interest rate. T-bills are considered the safest bond, with a return that is guaranteed by Uncle Sam.
- Municipal bonds. These are bonds from state or local governments. If you live in the "municipality," you usually won't have to pay state and local taxes on the bond's investment return.
- Bond funds. These are baskets of bonds traded much like mutual funds. They may be of similar types of bonds, with differing maturity dates.
- Zero-coupon bonds. Zeros are bonds that you buy at a discount, and when they mature you are paid the face value. The difference can be taxable. Some parents buy zeros that will mature when their children go to college.
- Convertible bonds. These are bonds of a company that can be exchanged at some point for company stock.

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Which bond type is best for you?

This is the key question. With so many choices, the best type of bond—and percent that bonds should represent of your total portfolio--depends on a number of factors related to your overall financial plan.

But one thing is clear. Be sure to review your bond investment plan, particularly now that interest rates are rising.

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