Bonds can seem complicated but they might suit if you need a regular income.
If you don't know your coupon from your credit, this guide is designed for you.

What are bonds?

A bond is basically a loan. When you buy a bond, you **lend money to the government or company that issued it**.

You then typically receive **regular interest payments** (coupons). This is normally a fixed amount that is set when the bond is issued.

At the time when the loan is scheduled to end (the maturity), **the amount you originally lent is paid back to you**.

What are the **different types** of bonds?

Government bonds
Issued by countries, normally to raise money for public spending. Different countries have different levels of risk.

Corporate bonds
Issued by companies. They can offer higher interest payments as they are often seen as riskier than government bonds.

Investment grade
You're less likely to lose money on these bonds, but you'll probably get less interest as well.

High yield
Lower credit rating than investment-grade.

Index-linked
The value of payments is adjusted in line with inflation. This means you will probably get more if inflation rises.

What drives their **value** up or down?

Interest rates
A rise in rates causes a fall in bond prices, and vice versa. The interest on a bond is fixed at the start, so the bond doesn't benefit from rising rates, like savings do. The longer the maturity, the greater the impact.

Inflation
Things tend to get more expensive over time. Since the interest paid on a bond is fixed, the real value of that payment could be worth less over time.

Issuer outlook
If a bond issuer's finances get worse, its credit rating – the measure of its ability to repay debt – may be downgraded. Its price may fall as investors decide that the interest doesn't make up for the increased risk of a missed payment.

More investors want to buy but fewer bondholders want to sell
VALUE INCREASES

More bondholders want to sell but fewer investors want to buy
VALUE DECREASES

How do you make **money** from bonds?

Income: coupons

You know exactly how much you'll receive and when, assuming the issuer doesn't miss payments.

Capital return

If you buy a bond from another investor for **less than its original cost**...

...you could make a profit by **holding it to maturity**.

A case for **bonds**

	Cash savings	Bonds	Equities	Property
Will I receive an income?	Low, in line with interest rates.	Generally higher, stable income. Usually fixed.	Not guaranteed, dependent on the dividend and will fluctuate.	Generally higher, can fluctuate but should remain stable.
Is my initial investment secure?	Up to £85,000 of your money (£75,000 from 1 January 2016) is secure in a bank or building society through the Financial Services Compensation Scheme.	Not secure but generally safer than equities.	Not secure and may fluctuate sharply.	Not secure but generally safer than equities.
Will my investment grow?	Low growth. You could lose money if the interest rate is less than inflation.	Some growth potential.	High growth potential.	Some growth potential.

What is a **bond fund**?

You can **pool your money with other investors to buy a range of bonds**, diversifying to reduce exposure to any one government or company.

FUND

An experienced fund manager invests and manages on your behalf. An active manager aims to **outperform other similar bond funds**.

The value of investments will fluctuate, which will cause fund pricesto fall as well as rise and you may not get back the original amount you invested.

We are unable to give financial advice. If you are unsure about the suitability of your investment, speak to your financial adviser.

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