

Bonds

What are They?

A bond is a contract to loan an amount of money for a percentage return. The loan is paid back with interest after the agreed term.

Choosing a Bond Criteria

Criteria for choosing a bond:

- ** Credit Worthiness
- Yield

Determining Credit Worthiness

You can determine the company's credit worthiness by checking their credit rating. You can query various rating agencies to determine worthiness.

Bond Rating Agencies

- Moody's
- Standard and Poor's
- Fitch

Rating	Invest?
AAA	Best
AA	Investing Grade
A	Investing Grade
BBB	Investing Grade
BB	Junk
B	Junk
CCC	Junk
CC	Junk
C	Junk
D	Junk

Choose a bond who's rating is BBB and up.

Buying Bonds

You can buy bonds either by buying:

- bond funds
 - multiple bonds in a fund
 - safety in numbers
- individual bonds
 - admin fee
 - minimum \$ requirement

Bond Prices vs Interest Rates

Example

- Company A
 - \$1000
 - 2 Year Maturity
 - yield - 10%/year
 - paid semi annually

	0	6 months	12 months	18 months	24 months
Payment	x	\$50	\$50	\$50	\$1050

So, say in 12 months, the interest rate goes up and now the bond pays 15%.

If you go to sell your bond before maturity, then you obviously can't sell it for the same value because the yield is now 15% not 10%.

References

Reference	URL
What is a bond	https://www.questrade.com/self-directed-investing/what-is-a-bond