Fixed Income: Corporate Bonds

What are your investment priorities? Attractive yields? Predictable returns? Current income? Whether you’re focusing on short- or long-term financial goals, the flexibility and relatively low risk of corporate bonds may offer a solid foundation to your investment portfolio. Corporate bonds pay interest over the life of the bond and return your investment principal at maturity.

WHAT ARE CORPORATE BONDS?
When you buy a corporate bond, you’re lending money to the issuing corporation to use for a variety of purposes, from building new facilities to financing business expansion. In exchange, the corporation pays you an established rate of interest, usually semiannually, and returns your principal on a specified maturity date. Because the interest payments you receive are considered taxable income, they are a suitable choice for the fixed-income component of retirement accounts.

Corporations from five basic classifications representing various sectors issue corporate bonds: public utilities, industrial corporations, transportation companies, conglomerates, and banks and financial institutions.

Similar to other fixed-income securities, corporate bonds also offer the flexibility of a variety of structures, including fixed-rate, floating-rate and zero coupon. Your Piper Jaffray financial advisor can help you best use the range of available structures to your advantage.

Most corporate bonds are issued in multiples of $1,000 in a wide range of maturities and are rated on their credit quality by Moody’s and Standard & Poor’s.

BENEFITS OF INVESTING IN CORPORATE BONDS
Relatively Low Risk Investments
Since a corporate bond is a loan, it is important to consider the credit quality of the issuing corporation. You’ll want to assess its creditworthiness before you purchase your bond. Corporate bond rating services offer a quick and easy way to check the bond’s credit rating. Ratings are based on the issuing corporation’s credit history and ability to repay its obligations. Generally, the higher the rating, the greater the security of your investment.

Attractive Yields
Corporate bonds typically offer higher yields than CDs or government bonds of comparable maturities. Because long-term bonds are more sensitive to worldwide market volatility, they generally provide higher returns than short-term bonds.

Diversified Investments
Corporate bonds offer the opportunity to choose from a variety of sectors, structures and credit ratings to meet your investment objectives. Your Piper Jaffray financial advisor can help you take advantage of the bond features most suitable for your portfolio.

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CREDIT RATINGS OF CORPORATE BONDS
When investing in corporate bonds, receiving your interest payments and principal in total and on time is critical. That’s why corporate bonds are evaluated for credit quality. (See chart below.)

Corporate bonds can vary in terms of their relative risk and liquidity. Non-investment grade bonds offer the possibility of greater returns, but because of their lower credit rating, they carry an increase in risk. Some bonds are not rated, which does not necessarily imply they are unsafe. However, they may carry more risk than higher rated corporate bonds.

ASSOCIATED RISKS
As with most investments, bonds contain certain risk characteristics. Most of these risks can be managed through proper diversification. Generally, the higher the risk assumed by an investor, the higher the return on the bond to compensate for that risk. Investors should assess the risk/reward tradeoff when selecting bonds for their portfolios.

- **Credit risk**—The risk that an issuer will be unable to pay timely interest and principal
- **Market risk**—The chance that the price of a bond falls if interest rates rise
- **Reinvestment risk**—The possibility that an investor will have to reinvest interest and/or principal at lower interest rates
- **Call risk**—When an issuer has the ability to call a bond
- **Inflation risk**—The possibility that investment returns won’t keep up with the cost of living

If you sell your bond prior to maturity, you will receive current market price, which may be more or less than your initial investment.

WORKING TOGETHER WITH PIPER JAFFRAY
The wide range of sectors, ratings and structures of corporate bonds offers a unique combination of portfolio strategies. Whether you prefer predictable returns or the opportunity for higher, less stable returns, your financial advisor can help you determine the most suitable strategy for your investment goals.