



# Focus on Fixed Income

**Edward Jones**<sup>®</sup>  
MAKING SENSE OF INVESTING



# Our Objectives

- Increase your comfort level with fixed-income investments
- Explain how bonds can help you meet your investment goals



# Three Things You Can Do with Your Money



# Loan vs. Own: Two Ways to Invest

## Loan

Bonds

CDs

Savings

Bond unit trusts

Bond mutual funds

Bond ETFs

## Own

Stocks

Stock mutual funds

Real estate

Stock ETFs

# Earning Money with Bonds

- Lend your money to a company, municipality, etc.
- Receive original investment at a set maturity date
- During the life of the bond, you receive interest payments

# Bond Characteristics

A photograph of a middle-aged couple standing in a grassy field. The woman, on the left, is wearing a white short-sleeved button-down shirt and is smiling while holding black binoculars. The man, on the right, is wearing a light-colored short-sleeved button-down shirt and has his arm around the woman's shoulder. They are both looking towards the right side of the frame. The background shows a bright, sunny day with trees and a clear sky.

Issuer

Maturity date

Call feature


Interest rate

Price

Rating

Taxation

# Issuer

A photograph of three people sitting outdoors under a large tree. On the left, a woman with blonde hair wearing a wide-brimmed straw hat and a light-colored plaid shirt looks upwards. In the center, a woman with short blonde hair wearing a white shirt and a striped scarf holds binoculars and looks upwards. On the right, a man in a khaki uniform with a star on his chest and a cap looks upwards with a smile. The background is filled with green leaves and a bright sky.

- Government entity, municipality or corporation
- Responsible for repayment of principal and making interest payments



# Bond Maturities

Short term (up to 5 years)

Intermediate term (6 to 15 years)

Long term (16 years or more)

# Call Feature

- An issuer will often call a bond if it is paying a higher coupon than the current market interest rate
- Similar to refinancing a mortgage, the company is usually seeking to pay a lower interest rate when it calls a bond



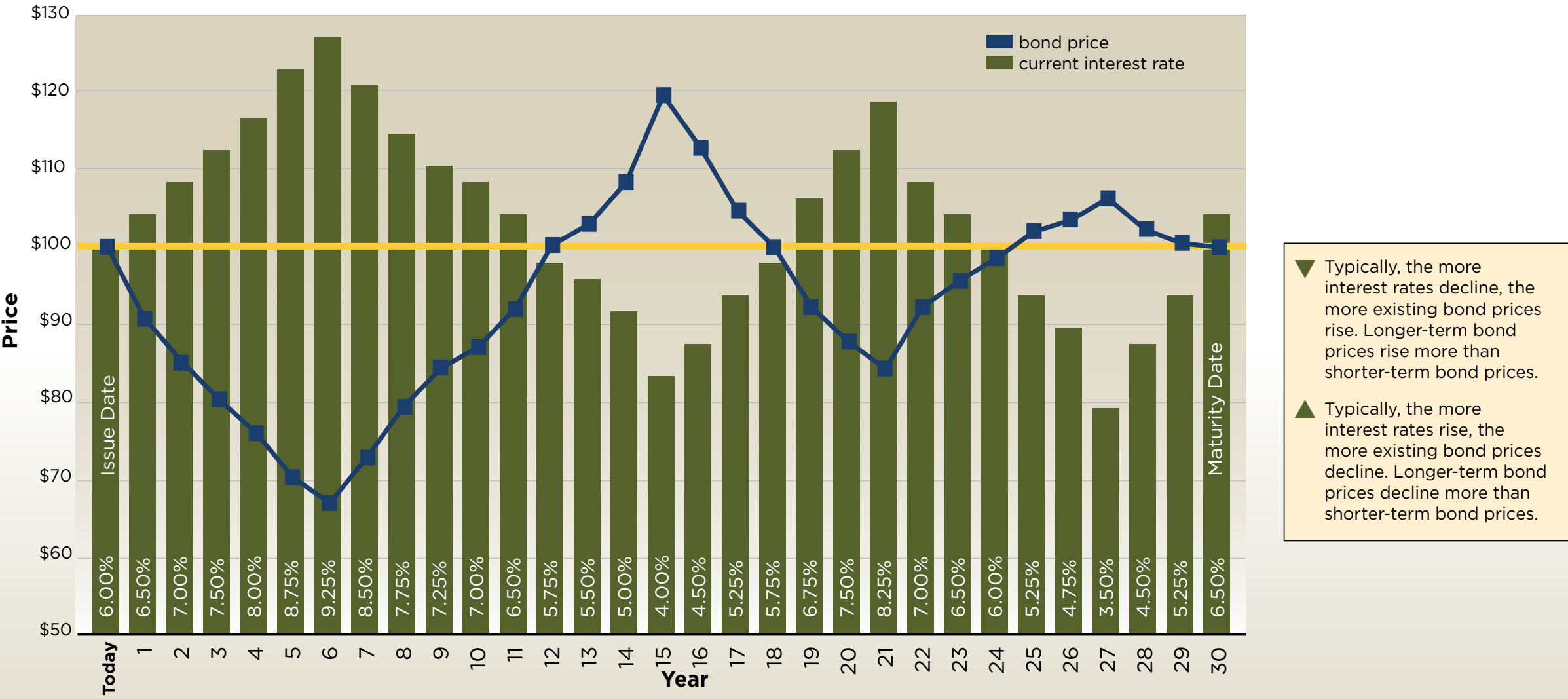
# Callable Bond Considerations

- May cause you to lose regular interest payment
- May put you in a situation where you must reinvest when interest rates are lower

# Interest Payments

- If a bond pays a coupon of 5% and its principal value is \$10,000, then it will pay **\$500 in interest a year**
- If interest is paid semiannually, you will receive **\$250 twice a year**

# Bond Prices and Interest Rates



Source: Edward Jones. Based on a hypothetical 6% bond with an initial 30-year maturity that is noncallable. Example assumes an investment-grade bond with no change to the credit quality of the bond. Past performance does not guarantee future results. Diversification does not guarantee a profit or protect against loss. The value and price of a bond can fall as well as rise, so you may get back less than you invested if you sell prior to maturity.

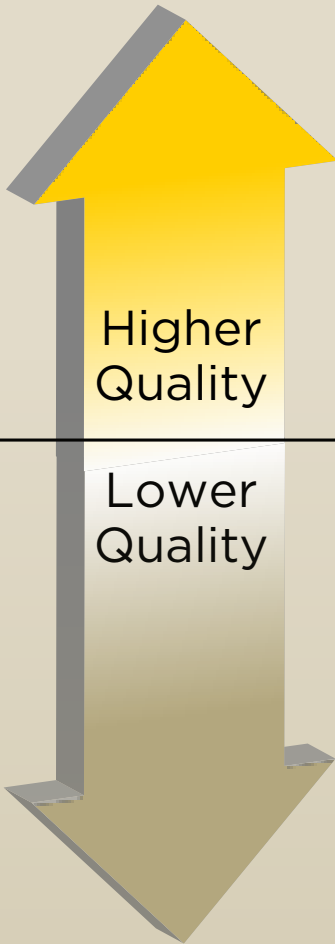
# How Interest Rates Impact Face Value

- A bond at a **premium** is selling for more than par
- A price of 105 means the bond is selling for 105% of par value -  
 **$1.05 \times \$10,000 = \$10,500$**

# How Interest Rates Impact Face Value

- A bond at a **discount** is selling for less than par
- A price of 95 means the bond is selling for 95% of par value -  
 **$0.95 \times \$10,000 = \$9,500$**

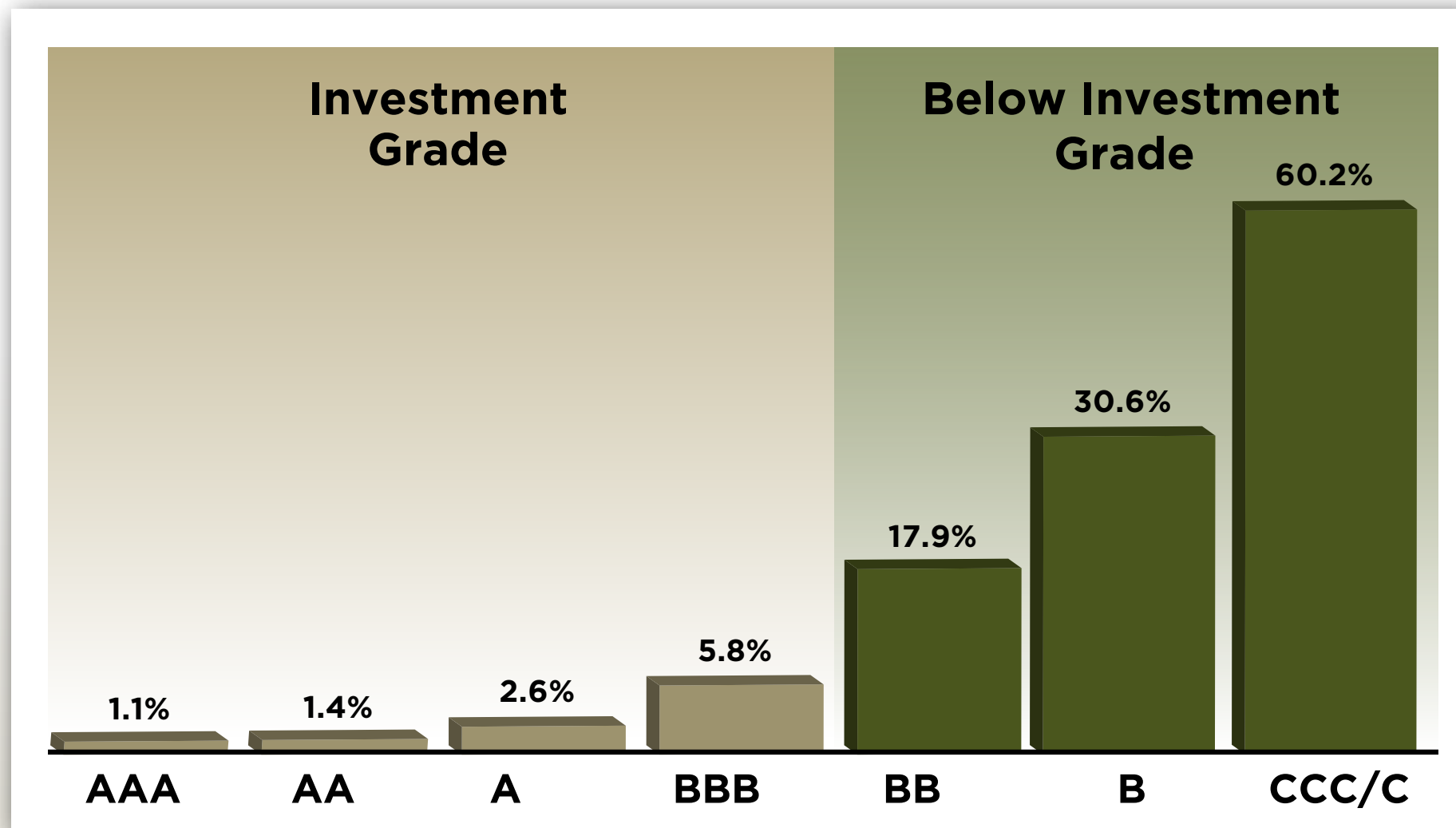
# Bond Quality/Ratings



	S&P	Moody's	Fitch
Investment Grade	AAA AA A BBB	Aaa Aa A Baa	AAA AA A BBB
Below Investment Grade (High-yield or "Junk" Bonds)	BB B CCC CC C	Ba B Caa Ca C	BB B CCC CC C

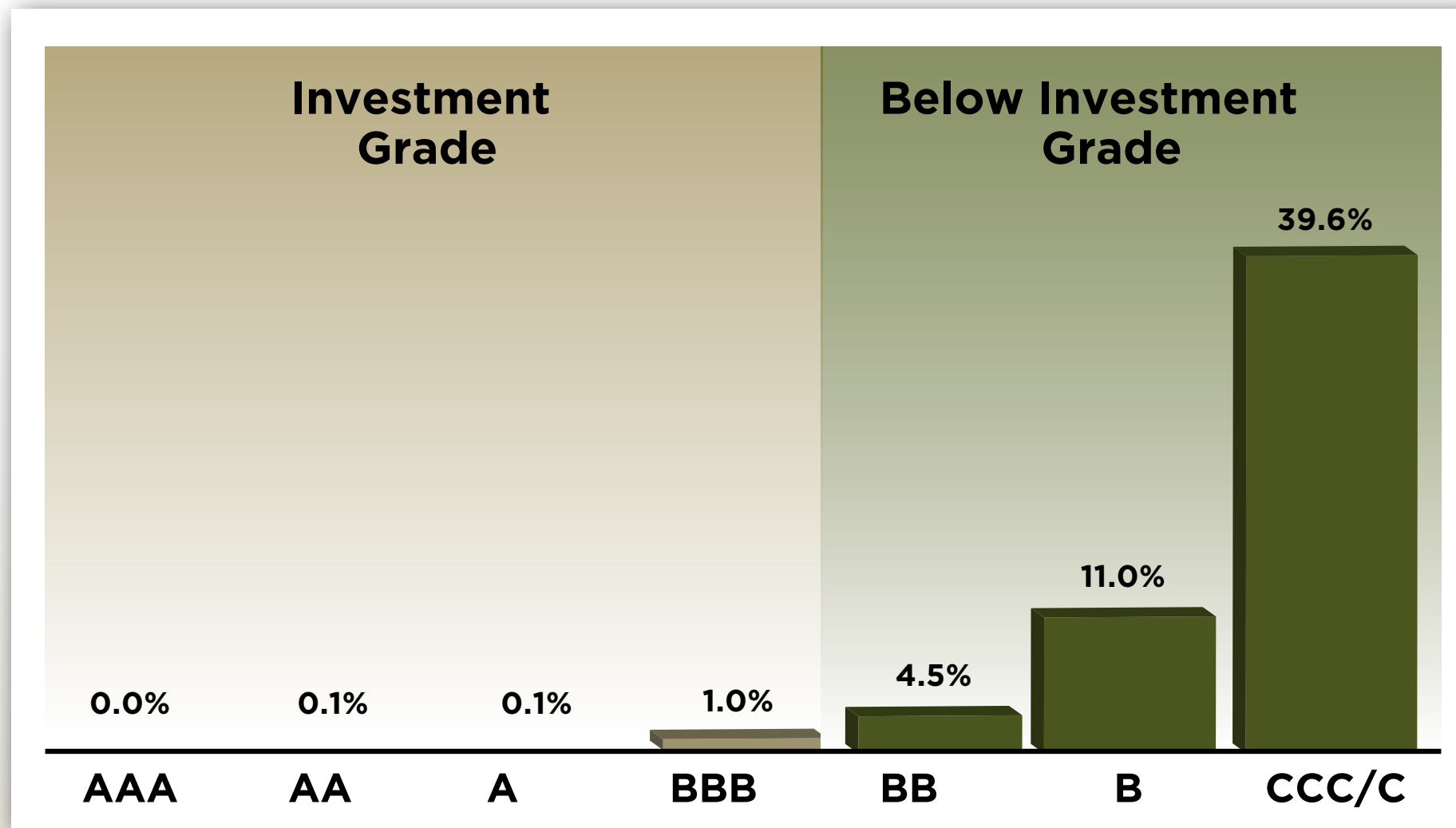


# Average Cumulative Corporate Bond Default Rates 1981–2020



Source: Standard & Poor's, Edward Jones. Past performance does not guarantee future results. Diversification does not guarantee a profit or protect against loss. Cumulative average default rates are calculated by taking the weighted average of annual default rates in each rating category and accumulating the results across all the years covered by the study. In this way, they take into account any change in an issuer's credit rating over time.

# Average Cumulative Municipal Bond Default Rates 1986-2020



Source: Standard & Poor's, Edward Jones. Past performance does not guarantee future results. Diversification does not guarantee a profit or protect against loss. Cumulative average default rates are calculated by taking the weighted average of annual default rates in each rating category and accumulating the results across all the years covered by the study. In this way, they take into account any change in an issuer's credit rating over time.

# Taxation

- Tax-free municipal bonds can help provide a source of income that's free from federal and possibly state and local taxes
- Some bonds may be subject to the alternative minimum tax (AMT)
- Interest on corporate and most other bonds is taxable

# Taxable-equivalent Yield

## How Tax-free Munis Work

The taxable-equivalent yield is the interest you would need to earn on a taxable bond to equal the yield a municipal bond provides

		Marginal Tax Rate					
		10%	12%	22%	24%*	32%*	35%*
Tax-free Yield	Taxable-equivalent Yield*						
2.00%	2.22%	2.27%	2.56%	2.77%	3.12%	3.27%	3.38%
3.00%	3.33%	3.41%	3.85%	4.16%	4.67%	4.90%	5.07%
4.00%	4.44%	4.55%	5.13%	5.54%	6.23%	6.54%	6.76%
5.00%	5.56%	5.68%	6.41%	6.93%	7.79%	8.17%	8.45%

Source: Edward Jones. This example does not represent currently available rates and does not illustrate the effect of state and local taxes or the alternative minimum tax (AMT).

\*These yields include the 3.8% Affordable Care Investment Tax in addition to the Marginal Tax Rate where applicable.

# Why Invest in Fixed Income?

Fixed-income investments can help provide a **reliable stream of income**



# Diversification Benefits

A group of four people, two men and two women, are dressed in light green safari attire and hats. They are sitting in a vehicle, looking out over a savanna landscape. One man is using binoculars, another is pointing towards the horizon, and a woman is also pointing. The scene is set against a backdrop of lush green trees and a bright sky.

- Owning a variety of investment types
- Helping reduce overall portfolio risk
- Helping preserve investment principal

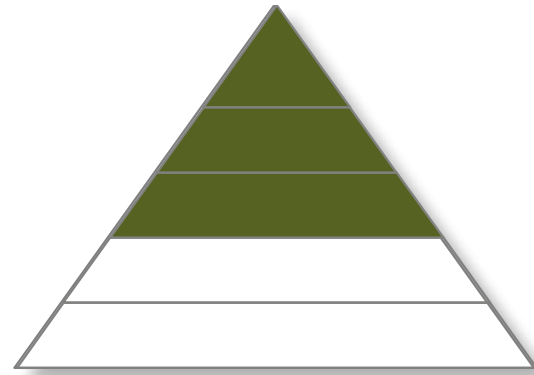
Diversification does not guarantee a profit or protect against loss.

# Investment Pyramid



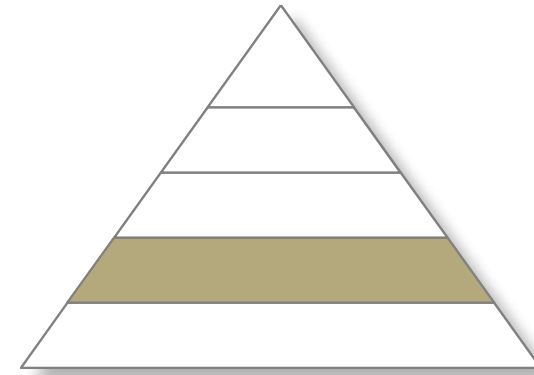
Source: Edward Jones.

# Edward Jones Investment Philosophy



## Stocks

- Diversify
- Buy quality
- Long-term focus  
(buy and hold)

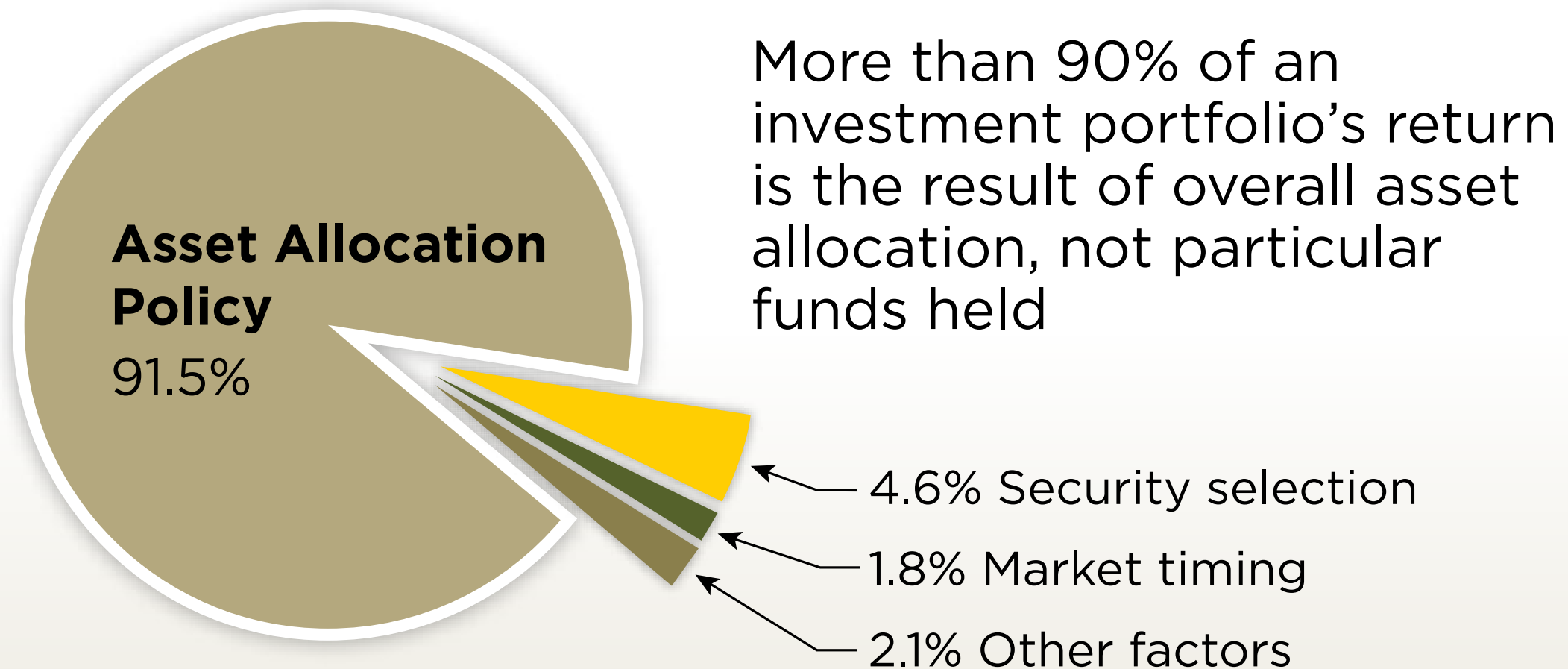


## Bonds

- Diversify
- Buy quality
- Long-term focus  
(ladder maturities)

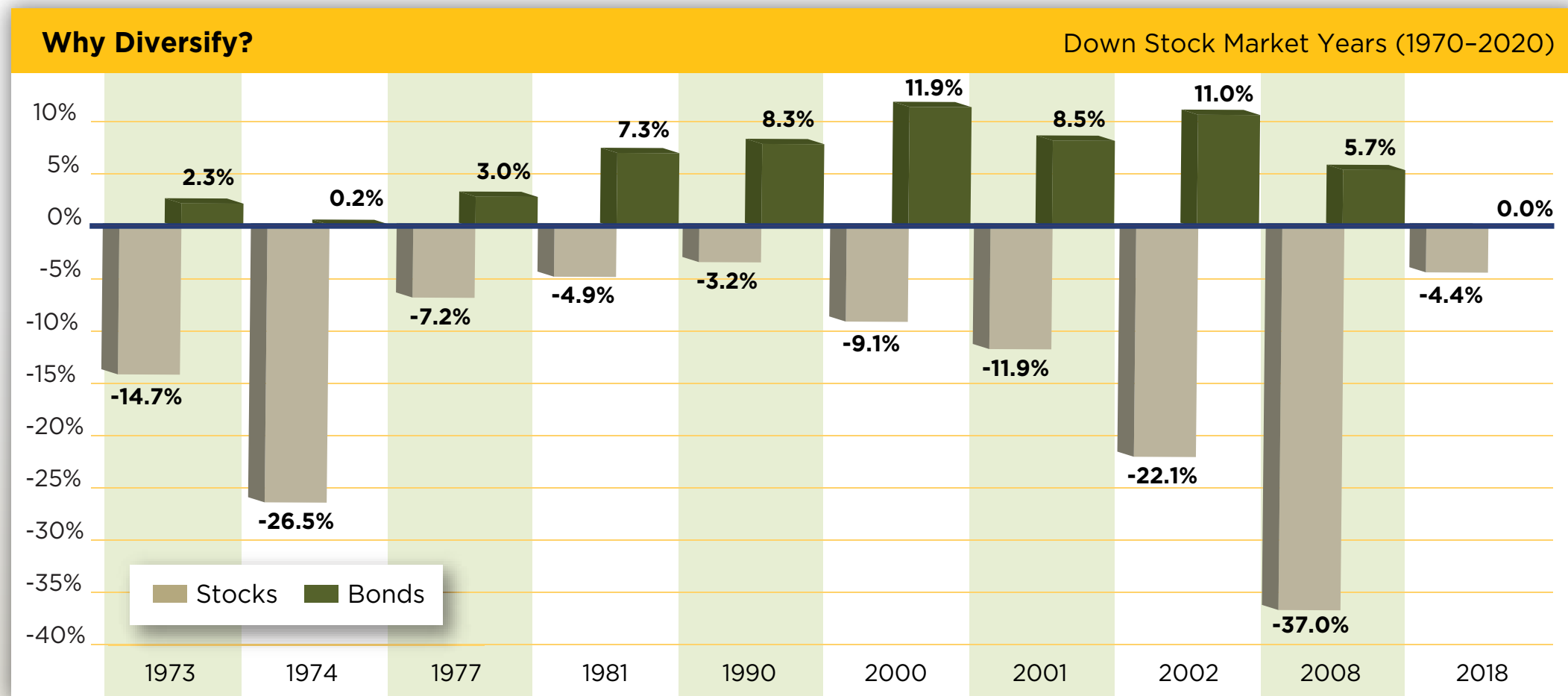


# Why Asset Allocation?



Source: "Determinants of Portfolio Performance II: An Update," Gary P. Brinson, Brian D. Singer and Gilbert L. Beebower, *Financial Analysts Journal*, 1991. Past performance is not a guarantee of future results. Diversification does not guarantee a profit or protect against loss in a declining market.

# Diversifying between Stocks and Bonds



Source: Ibbotson (S&P 500 Index), Barclays Capital (Government/Corporate Index). An index is unmanaged and is not meant to depict an actual investment. Past performance does not guarantee future results. Diversification does not guarantee a profit or protect against loss in a declining market.

# Edward Jones Recommended Bond Ladder

**Short term (up to 5 years): 30%–40%**

**Intermediate term (6 to 15 years): 40%–50%**

**Long term (16 years or more): 15%–25%**

# Bond Laddering

## Stability

Helps create a steadier, more dependable income stream by selecting bonds with varying interest payment dates

## Flexibility

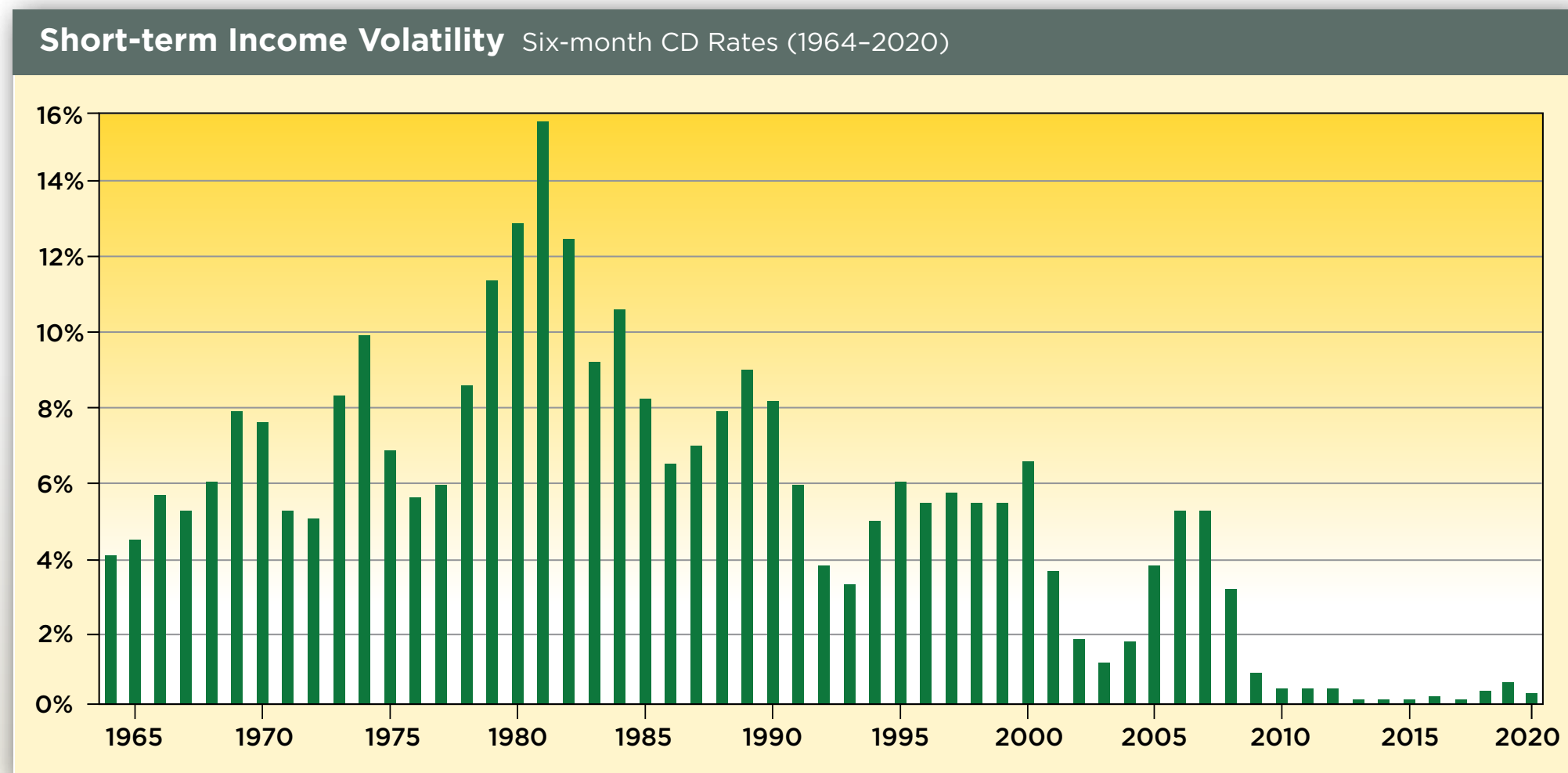
Staggered maturity dates help you fight interest rate fluctuations

## Diversification

Invest in bonds with a variety of maturity dates and coupons, as well as by investment type, such as U.S. Treasuries, municipal bonds, corporate bonds and CDs

# Short-term Income Volatility

## Six-month CD Rates (1964-2020)



Source: Federal Reserve and FDIC. Past performance does not guarantee future results.

# Summary

- Loan vs. own
- Importance of fixed income
- Relationship between interest rates and bond values
- Risks vs. steady income
- Strategy/laddering

# Questions & Answers



# Thank You

PLEASE COMPLETE YOUR EVALUATION NOW

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