

**Focus on
Fixed Income**

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MAKING SENSE OF INVESTING

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Our Objectives

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



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3

Three Things You Can Do with Your Money



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4

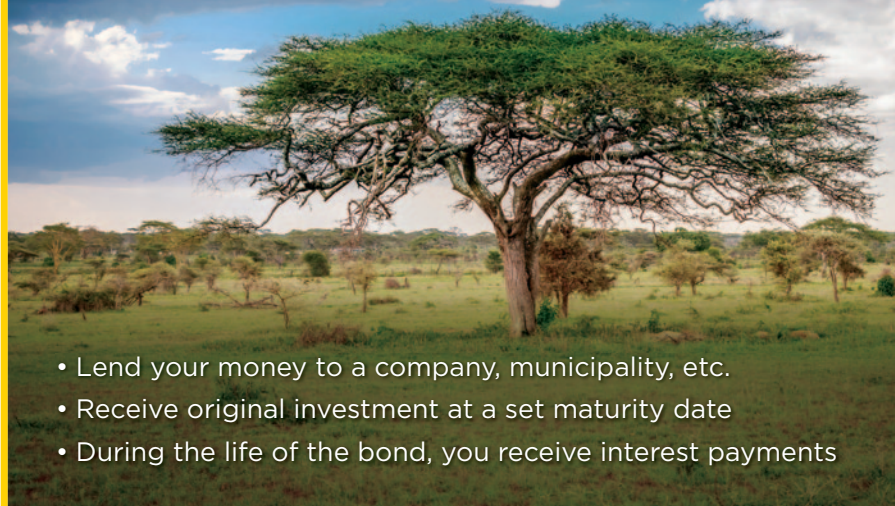
Loan vs. Own: Two Ways to Invest

| Loan | Own |
|------------------------------------|--------------------|
| Bonds | Stocks |
| Guaranteed Investment Certificates | Stock mutual funds |
| Savings Accounts | Real estate |
| Bond mutual funds | |
| Mortgage-backed securities | |

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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

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6

Bond Characteristics

Issuer

Maturity date

Call feature

Interest rate

Price

Rating

Taxation

Yield to Maturity(YTM)

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7

Issuer

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

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Bond Maturities

Short-term (up to 5 years)

Intermediate-term (6 to 15 years)

Long-term (16 years or more)

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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

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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

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11

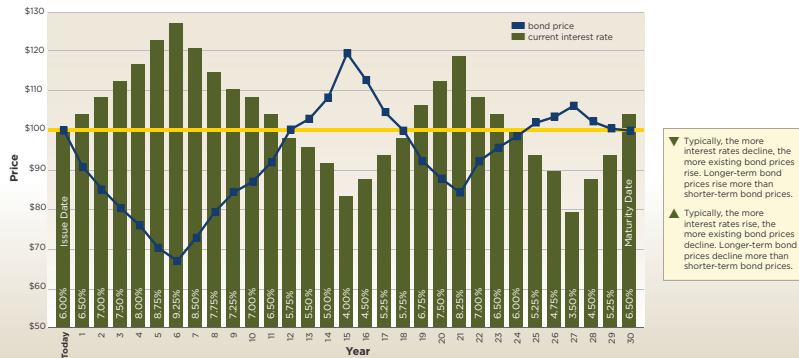
Interest Payments

- 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**

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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.

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13

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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 x \$10,000 = \$10,500**

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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 – **$0.95 \times \$10,000 = \$9,500$**

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15

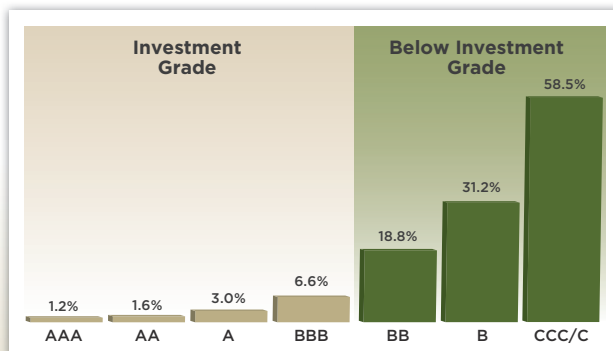
Bond Quality/Ratings

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

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16

Average Cumulative Corporate Bond Default Rates 1981-2015



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.

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17

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Taxation

- Interest on corporate and government bonds is fully taxable

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18

Why Invest in Fixed Income?

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

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19

Diversification Benefits

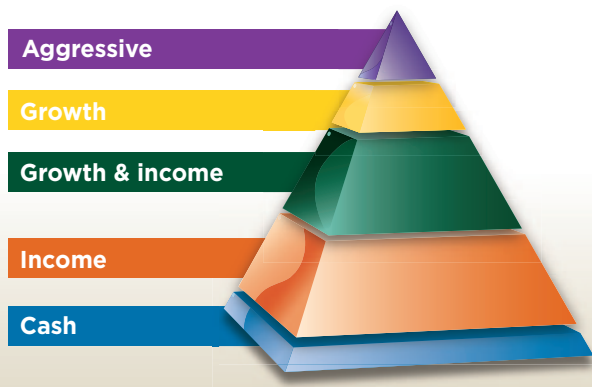
- Owning a variety of investment types
- Help reduce overall portfolio risk
- Help preserve principal

Diversification does not guarantee a profit or protect against loss.

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20

Investment Pyramid



Source: Edward Jones

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21

Source: Edward Jones.

Edward Jones Investment Philosophy



Stocks

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



Bonds

- Diversify
- Buy quality
- Ladder maturities

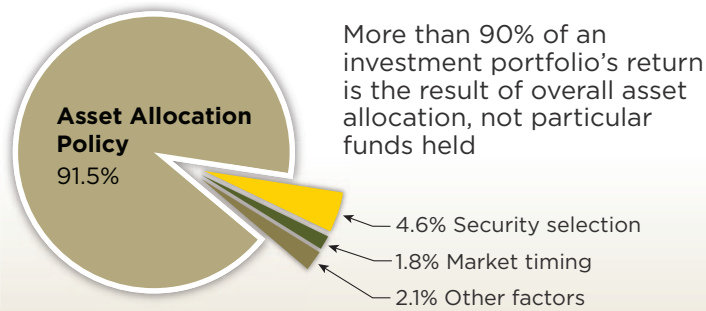
Diversification does not guarantee a profit or protect against loss.

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22

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Why Asset Allocation?

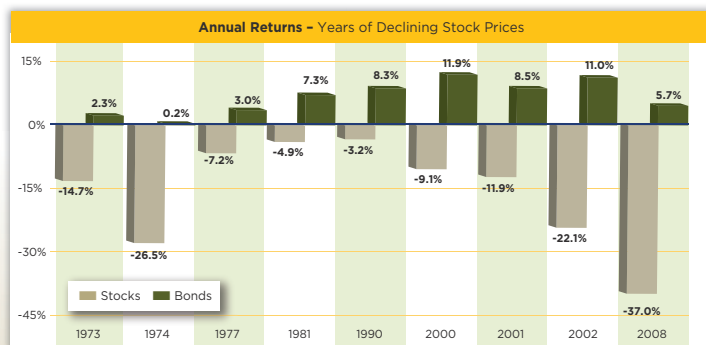


Source: "Determinants of Portfolio Performance II: An Update," Gary P. Brinson, Brian D. Singer and Gilbert L. Beebower, *Financial Analysts Journal*, 1991. Past performance is not a guarantee of future results. Diversification does not guarantee a profit or protect against loss.

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Diversifying between Stocks and Bonds



Source: Morningstar Direct. Stocks represented by the S&P 500 total return index. Bonds represented by the Barclays U.S. Aggregate Bond Index. Investment indices are unmanaged and are not available for direct investment. Past performance does not guarantee future results. Diversification does not guarantee a profit or protect against loss.

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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%

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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 government bonds and corporate bonds

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26

Summary

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

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27

Questions & Answers



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28

Thank You

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