
Bond Investing
FOR
DUMMIES®

by Russell Wild, MBA



Wiley Publishing, Inc.

Bond Investing

FOR

DUMMIES®

Bond Investing
FOR
DUMMIES®

by Russell Wild, MBA



Wiley Publishing, Inc.

Bond Investing For Dummies®

Published by
Wiley Publishing, Inc.
111 River St.
Hoboken, NJ 07030-5774
www.wiley.com

Copyright © 2007 by Wiley Publishing, Inc., Indianapolis, Indiana

Published by Wiley Publishing, Inc., Indianapolis, Indiana

Published simultaneously in Canada

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923, 978-750-8400, fax 978-646-8600. Requests to the Publisher for permission should be addressed to the Legal Department, Wiley Publishing, Inc., 10475 Crosspoint Blvd., Indianapolis, IN 46256, 317-572-3447, fax 317-572-4355, or online at <http://www.wiley.com/go/permissions>.

Trademarks: Wiley, the Wiley Publishing logo, For Dummies, the Dummies Man logo, A Reference for the Rest of Us!, The Dummies Way, Dummies Daily, The Fun and Easy Way, Dummies.com and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc. and/or its affiliates in the United States and other countries, and may not be used without written permission. All other trademarks are the property of their respective owners. Wiley Publishing, Inc., is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: THE PUBLISHER AND THE AUTHOR MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS WORK AND SPECIFICALLY DISCLAIM ALL WARRANTIES, INCLUDING WITHOUT LIMITATION WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES OR PROMOTIONAL MATERIALS. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR EVERY SITUATION. THIS WORK IS SOLD WITH THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING LEGAL, ACCOUNTING, OR OTHER PROFESSIONAL SERVICES. IF PROFESSIONAL ASSISTANCE IS REQUIRED, THE SERVICES OF A COMPETENT PROFESSIONAL PERSON SHOULD BE SOUGHT. NEITHER THE PUBLISHER NOR THE AUTHOR SHALL BE LIABLE FOR DAMAGES ARISING HEREFROM. THE FACT THAT AN ORGANIZATION OR WEBSITE IS REFERRED TO IN THIS WORK AS A CITATION AND/OR A POTENTIAL SOURCE OF FURTHER INFORMATION DOES NOT MEAN THAT THE AUTHOR OR THE PUBLISHER ENDORSES THE INFORMATION THE ORGANIZATION OR WEBSITE MAY PROVIDE OR RECOMMENDATIONS IT MAY MAKE. FURTHER, READERS SHOULD BE AWARE THAT INTERNET WEBSITES LISTED IN THIS WORK MAY HAVE CHANGED OR DISAPPEARED BETWEEN WHEN THIS WORK WAS WRITTEN AND WHEN IT IS READ.

For general information on our other products and services, please contact our Customer Care Department within the U.S. at 800-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

For technical support, please visit www.wiley.com/techsupport.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

Library of Congress Control Number: 2007935019

ISBN: 978-0-470-13459-7

Manufactured in the United States of America

10 9 8 7 6 5 4 3 2 1



WILEY

About the Author

Russell Wild is a NAPFA-certified financial advisor and the principal of Global Portfolios, an investment advisory firm based in eastern Pennsylvania. He is one of few wealth managers in the nation who is both fee-only (takes no commissions) and welcomes clients of both substantial *and* modest means. Wild, in addition to the fun he has with his financial calculator, is also an accomplished writer who helps readers understand and make wise choices about their money. His articles have appeared in many national publications, including *AARP The Magazine*, *Consumer Reports*, *Details*, *Maxim*, *Men's Journal*, *Men's Health*, *Cosmopolitan*, *Reader's Digest*, and *Real Simple*. He also contributes regularly to professional financial journals, such as *Wealth Manager* and *Financial Planning*.

The author or coauthor of two dozen nonfiction books, Wild's last work, prior to the one you're holding in your hand, was *Exchange-Traded Funds For Dummies* (Wiley, 2007). Before that was *The Unofficial Guide to Getting a Divorce* (Wiley, 2005), coauthored with attorney Susan Ellis Wild, his ex-wife — yeah, you read that right. No stranger to the mass media, Wild has shared his wit and wisdom on such shows as *Oprah*, *The View*, *CBS Morning News*, and *Good Day New York*, and in hundreds of radio interviews.

Wild holds a Master of Business Administration (MBA) degree in international management and finance from Thunderbird, the Garvin School of International Management, in Glendale, Arizona (consistently ranked the #1 school for international business by both *U.S. News and World Report* and *The Wall Street Journal*); a Bachelor of Science (BS) degree in business/economics *magna cum laude* from American University in Washington, D.C.; and a graduate certificate in personal financial planning from Moravian College in Bethlehem, Pennsylvania (America's sixth-oldest college). A member of the National Association of Personal Financial Advisors (NAPFA) since 2002, Wild is also a long-time member and currently serves as vice president of the American Society of Journalists and Authors (ASJA).

The author grew up on Long Island and now lives in Allentown, Pennsylvania with his two children, Adrienne and Clayton, along with Norman, the killer poodle. His Web site is www.globalportfolios.net.

Dedication

To the handful of people I've known in this crazy society who somehow manage to keep proper perspective on money, and have helped me to do the same: Arun, Auggie, Marc, Michael, Robert, Susan, and Vicki and Joe.

Author's Acknowledgments

This being my second *Dummies* book, I'd like to thank for a second time all the good people at Wiley, many of whom were involved in my first *Dummies* project, *Exchange-Traded Funds For Dummies*. We're becoming like old friends! I'm so glad that you guys assigned Joan Friedman once again as the project editor. If Moody's gave editors ratings, as it does bonds, Joan would certainly be rated Aaa.

Thanks to some of my colleagues in the investment world, especially Marilyn Cohen, official tech consultant on this book, who knows bonds better than anyone on the planet and provided me with invaluable insight into the behind-the-curtains world of bond trading. And my great appreciation to Michael Pace, an extremely sharp certified financial planner, fellow member of the National Association of Personal Financial Advisors (NAPFA), and excellent catcher of errors and inserter of added good information.

Thanks to Brenda Lange and David Kohn, fellow writers and members of the American Society of Journalists and Authors (ASJA), for their literary input. I also appreciate the help of all the number-crunchers and media liaisons at Morningstar, as well as some very helpful folks at the U.S. Treasury, the Securities Industry and Financial Markets Association, and the Financial Industry Regulatory Authority. Special thanks go to Rebecca Cohen at Vanguard.

And thanks to my literary agent, Marilyn Allen, for her continued good representation in the tangled and complicated world of book publishing.

Some others who provided very helpful input are mentioned throughout the pages of the book. I appreciate your help, one and all. Oh, I almost forgot . . . Thank *you*, Little Pepper (my daughter), for your illustrations!

Publisher's Acknowledgments

We're proud of this book; please send us your comments through our Dummies online registration form located at www.dummies.com/register/.

Some of the people who helped bring this book to market include the following:

Acquisitions, Editorial, and Media Development

Project Editor: Joan Friedman

Acquisitions Editor: Stacy Kennedy

Technical Consultant: Marilyn Cohen

Editorial Supervisor: Carmen Krikorian

Editorial Manager: Michelle Hacker

Editorial Assistants: Erin Calligan Mooney,
Joe Niesen, David Lutton,
Leeann Harney

Cover Photos: © Royalty-Free/Corbis

Cartoons: Rich Tennant (www.the5thwave.com)

Composition Services

Project Coordinator: Erin Smith

Layout and Graphics: Brooke Graczyk,
Joyce Haughey, Stephanie D. Jumper,
Julie Trippetti

Anniversary Logo Design: Richard Pacifico

Proofreaders: John Greenough, Susan Moritz,
Evelyn W. Still

Indexer: Potomac Indexing LLC

Publishing and Editorial for Consumer Dummies

Diane Graves Steele, Vice President and Publisher, Consumer Dummies

Joyce Pepple, Acquisitions Director, Consumer Dummies

Kristin A. Cocks, Product Development Director, Consumer Dummies

Michael Spring, Vice President and Publisher, Travel

Kelly Regan, Editorial Director, Travel

Publishing for Technology Dummies

Andy Cummings, Vice President and Publisher, Dummies Technology/General User

Composition Services

Gerry Fahey, Vice President of Production Services

Debbie Stailey, Director of Composition Services

Contents at a Glance

.....

| | |
|--|------------|
| <i>Introduction</i> | 1 |
| <i>Part I: Bond Appetit!</i> | 9 |
| Chapter 1: So You Want to Be a Bondholder..... | 11 |
| Chapter 2: Developing Your Investment Game Plan | 23 |
| Chapter 3: The (Often, but Not Always) Heroic History of Bonds | 35 |
| Chapter 4: Sweet Interest Is the Name of the Game..... | 47 |
| <i>Part II: Numerous and Varied Ways to Make Money in Bonds</i> | 69 |
| Chapter 5: “Risk-Free” Investing: U.S. Treasury Bonds..... | 71 |
| Chapter 6: Industrial Returns: Corporate Bonds..... | 87 |
| Chapter 7: Lots of Protection (and Just a Touch of Confusion): Agency Bonds | 101 |
| Chapter 8: (Almost) Tax-Free Havens: Municipal Bonds..... | 111 |
| Chapter 9: Le Bond du Jour: Global Bonds and Other Seemingly Exotic Offerings | 127 |
| <i>Part III: Customizing and Optimizing Your Bond Portfolio</i> | 143 |
| Chapter 10: Risk, Return, and Realistic Expectations..... | 145 |
| Chapter 11: The Science (and Pseudoscience) of Portfolio-Building | 163 |
| Chapter 12: Dividing Up the Pie: What Percentage Should Be in Bonds? | 173 |
| Chapter 13: Which Kinds of Bonds Make the Most Sense for You? | 191 |
| <i>Part IV: Bonds Away! Navigating the Fixed-Income Marketplace</i> | 205 |
| Chapter 14: Strategizing Your Bond Buys and Sells | 207 |
| Chapter 15: Investing (Carefully!) in Individual Bonds..... | 221 |
| Chapter 16: Picking a Bond Fund That Will Serve You for Life..... | 237 |
| <i>Part V: Bonds As Replacements for the Old Paycheck</i> | 259 |
| Chapter 17: Fulfilling the Need for Steady, Ready, Heady Cash..... | 261 |
| Chapter 18: Finding Comfort and Security in Old Age..... | 277 |

| | |
|--|------------|
| <i>Part VI: The Part of Tens</i> | 287 |
| Chapter 19: Ten Most Common Misconceptions about Bonds | 289 |
| Chapter 20: Ten Mistakes That Most Bond Investors Make | 295 |
| Chapter 21: Ten Q & A's with Bond Guru Dan Fuss..... | 301 |
| <i>Part VII: Appendix</i> | 305 |
| Appendix: Helpful Web Resources for Successful Bond Investing..... | 307 |
| <i>Index</i> | 313 |

Table of Contents

.....

***Introduction*..... 1**

| | |
|---|---|
| About This Book..... | 2 |
| Conventions Used in This Book..... | 4 |
| What You're Not to Read..... | 5 |
| Foolish Assumptions..... | 5 |
| How This Book Is Organized..... | 6 |
| Part I: Bond Appetit!..... | 6 |
| Part II: Numerous and Varied Ways to Make Money in Bonds..... | 6 |
| Part III: Customizing and Optimizing Your Bond Portfolio..... | 6 |
| Part IV: Bonds Away! Navigating the Fixed-Income Marketplace..... | 7 |
| Part V: Bonds As Replacements for the Old Paycheck..... | 7 |
| Part VI: The Part of Tens..... | 7 |
| Part VII: Appendix..... | 7 |
| Icons Used in This Book..... | 7 |
| Where to Go from Here..... | 8 |

***Part I: Bond Appetit!*..... 9**

Chapter 1: So You Want to Be a Bondholder 11

| | |
|---|----|
| Understanding What Makes a Bond a Bond..... | 12 |
| Choosing your time frame..... | 13 |
| Determining who you trust to hold your money..... | 13 |
| Recognizing the difference between bonds, stocks, and Beanie Babies..... | 14 |
| Why Hold Bonds? (Hint: You'll Likely Make Money!)..... | 15 |
| Identifying the best reason to buy bonds: Diversification..... | 16 |
| Going for the cash..... | 17 |
| Introducing the Major Players in the Bond Market..... | 18 |
| Supporting (enabling?) your Uncle Sam with Treasury bonds..... | 18 |
| Collecting corporate debt..... | 19 |
| Demystifying those quasi-governmental agencies..... | 20 |
| Going cosmopolitan with municipal offerings..... | 20 |
| Buying Solo or Buying Bulk..... | 21 |
| Picking and choosing individual bonds..... | 22 |
| Going with a bond fund or funds..... | 22 |

| | |
|---|-----------|
| Chapter 2: Developing Your Investment Game Plan | 23 |
| Focusing on Your Objectives | 24 |
| Deciding what you want to be when you grow up | 24 |
| Picturing your future nest egg | 25 |
| Understanding the Rule of 20 | 25 |
| Choosing your investment style..... | 26 |
| Making Your Savings and Investment Selections | 27 |
| Saving your money in safety | 28 |
| Investing your money with an eye toward growth..... | 29 |
| Understanding Five Major Investment Principles..... | 31 |
| 1. Risk and return are two sides of the same coin | 31 |
| 2. Financial markets are largely efficient | 32 |
| 3. Diversification is just about the only free lunch you'll ever get | 32 |
| 4. Reversion to the mean — it means something..... | 33 |
| 5. Investment costs matter — and they matter a lot! | 34 |
| Chapter 3: The (Often, but Not Always) Heroic History of Bonds | 35 |
| Reviewing the Triumphs and Failures of Fixed-Income Investing | 36 |
| Beating inflation, but not by very much..... | 36 |
| Saving the day when the day needed saving | 37 |
| Looking Back Over a Long and (Mostly) Distinguished Past | 39 |
| Yielding returns to generations of your ancestors | 39 |
| Gleaning some important lessons | 41 |
| Realizing How Crucial Bonds Are Today | 42 |
| Viewing Recent Developments, Largely for the Better..... | 45 |
| Chapter 4: Sweet Interest Is the Name of the Game | 47 |
| Calculating Rates of Return Can Be Like | |
| Deciphering Ancient Babylonian | 48 |
| Cutting deals | 49 |
| Changing hands | 49 |
| Embracing the complications | 50 |
| Conducting Three Levels of Research to | |
| Measure the Desirability of a Bond | 50 |
| Level one: Getting basic, easily available information | 51 |
| Face value | 51 |
| Coupon rate | 52 |
| Sale price | 52 |
| Level two: Finding out intimate details of the bond | 53 |
| Ratings: Separating quality from junk | 53 |
| Insurance | 54 |
| Maturity | 54 |
| Callability..... | 55 |
| Taxes | 55 |

| | |
|---|----|
| Level three: Examining the neighborhood | 55 |
| Prevailing interest rates..... | 56 |
| The rate of inflation..... | 57 |
| Forces of supply and demand..... | 58 |
| Understanding (and Misunderstanding) the Concept of Yield | 58 |
| Coupon yield..... | 58 |
| Current yield..... | 59 |
| Yield-to-maturity..... | 59 |
| Yield-to-call..... | 60 |
| Worst-case basis yield | 61 |
| The 30-day SEC yield..... | 61 |
| Recognizing Total Return (This Is What Matters Most!)..... | 62 |
| Figuring in capital gains and losses | 62 |
| Factoring in reinvestment rates of return | 62 |
| Allowing for inflation adjustments | 63 |
| Weighing pre-tax versus post-tax | 64 |
| Measuring the Volatility of Your Bond Holdings | 64 |
| Time frame matters most | 65 |
| Quality counts..... | 65 |
| The coupon rate matters, too..... | 66 |
| Returning to the Bonds of Babylonia | 67 |
| Interest short run, interest long run | 67 |
| Interest past, interest future | 68 |

***Part II: Numerous and Varied Ways to
Make Money in Bonds*** **69**

Chapter 5: “Risk-Free” Investing: U.S. Treasury Bonds **71**

| | |
|--|----|
| Exploring the Many Ways of Investing with Uncle Sam | 72 |
| Savings bonds for beginning investors..... | 73 |
| EE (Patriot) bonds | 74 |
| I bonds | 75 |
| The dinosaurs | 76 |
| Treasury bills, notes, and bonds for more serious investing..... | 77 |
| Treasury Inflation-Protected Securities (TIPS)..... | 79 |
| Setting the Standard by Which All Other Bonds Are Measured..... | 80 |
| Turning to Treasuries in times of turmoil | 81 |
| Picking your own maturity..... | 82 |
| Deciding whether you want inflation protection or not..... | 84 |
| Entering the Treasury Marketplace..... | 84 |
| Buying direct or through a broker?..... | 84 |
| Appreciating the difference between new and used bonds..... | 85 |
| Tapping Treasuries through mutual funds and exchange-traded funds | 86 |

| | |
|--|------------|
| Chapter 6: Industrial Returns: Corporate Bonds | 87 |
| Why Invest in These Sometimes Pains-in-the-Butt?..... | 88 |
| Comparing corporate bonds to Treasuries..... | 88 |
| Hearing it from the naysayers..... | 89 |
| Taking a cue from the other side..... | 90 |
| Considering historical returns..... | 90 |
| Getting Moody: The Crucial Credit Ratings | 92 |
| Revisiting your ABCs | 93 |
| Gauging the risk of default | 94 |
| Special Considerations for Investing in Corporate Debt | 95 |
| Calculating callability | 96 |
| Coveting convertibility | 96 |
| Reversing convertibility . . . imagine that | 97 |
| Appreciating High-Yield for What It Is | 97 |
| Anticipating good times ahead..... | 98 |
| Preparing for the bad times | 98 |
| Investing in high-yields judiciously..... | 98 |
| | |
| Chapter 7: Lots of Protection (and Just a Touch of Confusion): Agency Bonds | 101 |
| Slurping Up Your Alphabet Soup..... | 102 |
| Sizing up the government's actual commitment | 104 |
| Introducing the agency biggies..... | 104 |
| Federal National Mortgage Association (Fannie Mae)..... | 104 |
| Federal Home Loan Mortgage Corporation (Freddie Mac) | 105 |
| Federal Home Loan Banks | 105 |
| Comparing and Contrasting Agency Bonds..... | 106 |
| Weighing taxation matters | 107 |
| Making like John Travolta | 107 |
| Banking Your Money on Other People's Mortgages | 108 |
| Bathing in the mortgage pool | 108 |
| Deciding whether to invest in the housing market..... | 109 |
| Considering Agencies for Your Portfolio..... | 109 |
| | |
| Chapter 8: (Almost) Tax-Free Havens: Municipal Bonds | 111 |
| Appreciating the Purpose and Power of Munis..... | 112 |
| Sizing up the muni market..... | 113 |
| Comparing and contrasting with other bonds | 113 |
| Delighting in the diversification of municipals..... | 114 |
| Knowing That All Cities (Bridges or Ports) Are Not Created Equal | 115 |
| Enjoying low risk | 115 |
| Choosing from a vast array of possibilities | 116 |

| | |
|--|-----|
| Consulting the Taxman..... | 117 |
| Bringing your bracket to bear | 118 |
| Singling our your home state..... | 120 |
| Matching munis to the appropriate accounts | 122 |
| Recognizing Why This Chapter is Titled | |
| “(Almost) Tax-Free Havens” | 123 |
| Reckoning with the AMT tax..... | 123 |
| Capping your capital gains..... | 123 |
| Buying Munis Made Easier..... | 124 |

Chapter 9: Le Bond du Jour: Global Bonds and Other Seemingly Exotic Offerings127

| | |
|--|-----|
| Traveling Abroad for Fixed Income | 128 |
| Dipping into developed-world bonds | 128 |
| What are they? | 129 |
| Should you invest? | 129 |
| Embracing the bonds of emerging-market nations | 131 |
| What are they? | 131 |
| Should you invest? | 131 |
| Bond Investing with a Conscience..... | 132 |
| Having faith in church bonds..... | 132 |
| What are they? | 132 |
| Should you invest? | 133 |
| Adhering to Islamic law: Introducing the sukuk..... | 133 |
| What are they? | 134 |
| Should you invest? | 134 |
| Investing for the common good: Socially responsible bonds..... | 134 |
| What are they? | 135 |
| Should you invest? | 136 |
| Playing with Bond Fire: Potentially Risky Bond Offerings | 136 |
| Rocking with Bowie Bonds..... | 136 |
| What are they? | 136 |
| Should you invest? | 137 |
| Cashing in on catastrophe bonds..... | 137 |
| What are they? | 137 |
| Should you invest? | 137 |
| Dealing in death..... | 137 |
| What are they? | 138 |
| Should you invest? | 138 |
| Banzai Bonds: Hold on Tight | 138 |
| Daring to delve into derivatives | 138 |
| What are they? | 138 |
| Should you invest? | 139 |

| | |
|--|-----|
| Banking on losses with defaulted bond issues | 139 |
| What are they? | 139 |
| Should you invest? | 140 |
| Evaluating exchange-traded notes | 140 |
| What are they? | 141 |
| Should you invest? | 141 |

***Part III: Customizing and Optimizing Your Bond Portfolio* 143**

Chapter 10: Risk, Return, and Realistic Expectations 145

| | |
|---|-----|
| Searching, Searching, Searching for the Elusive Free Lunch | 146 |
| Making a killing in Treasuries . . . yeah, right | 146 |
| Defining risk and return | 147 |
| Appreciating Bonds' Risk Characteristics | 147 |
| Investing with confidence | 148 |
| Realizing, however, that bonds offer no ironclad guarantees | 148 |
| Interest-rate risk | 148 |
| Inflation risk | 149 |
| Reinvestment risk | 149 |
| Default risk | 150 |
| Downgrade risk | 150 |
| Tax risk | 151 |
| Keeping-up-with-the-Joneses risk | 151 |
| Regarding all these risks | 152 |
| Reckoning on the Return You'll Most Likely See | 155 |
| Calculating fixed-income returns is much easier said than done | 155 |
| Looking back at history is an imperfect guide, but | 156 |
| Investing in bonds despite their lackluster returns | 160 |
| Finding Your Risk–Return Sweet Spot | 161 |
| Allocating your portfolio correctly | 161 |
| Tailoring a portfolio just for you | 162 |

Chapter 11: The Science (and Pseudoscience) of Portfolio-Building 163

| | |
|---|-----|
| Mixing and Matching Your Various Investments | 164 |
| Dreaming of limited correlation | 164 |
| Seeking zig and zag | 166 |
| Translating theory into reality | 166 |
| Appreciating Bonds' Dual Role: Diversifier and Ultimate Safety Net | 167 |
| Protecting yourself from perfect storms | 168 |
| Eyeing a centuries-old track record | 168 |

| | |
|---|------------|
| Recognizing Voodoo Science | 169 |
| Comparing actively managed funds to index funds..... | 170 |
| Forecasting the future — and getting it wrong..... | 170 |
| Ignoring the hype | 171 |
| Chapter 12: Dividing Up the Pie: What Percentage Should Be in Bonds? | 173 |
| Why the Bond Percentage Question Is Not As Simple As Pie..... | 174 |
| Minimizing volatility | 175 |
| Maximizing return | 176 |
| Peering into the Future..... | 177 |
| Assessing your time frame..... | 178 |
| Factoring in some good rules | 179 |
| Recognizing yourself in a few case studies..... | 179 |
| Jean and Raymond, 61 and 63, financially quite comfortable | 180 |
| Kay, 59, hoping only for a simple retirement | 180 |
| Juan, 29, just getting started | 182 |
| Miriam, 53, plugging away | 183 |
| Noticing the Many Shades of Gray in Your Portfolio | 184 |
| Bonds of many flavors | 185 |
| Stocks of all sizes and sorts | 185 |
| Other fixed income: Annuities | 186 |
| Other equity: Commodities and real estate..... | 187 |
| Making Sure That Your Portfolio Remains in Balance..... | 188 |
| Tweaking your holdings to temper risk..... | 189 |
| Savoring the rebalancing bonus | 189 |
| Scheduling your portfolio rebalance | 190 |
| Chapter 13: Which Kinds of Bonds Make the Most Sense for You? | 191 |
| Reviewing the Rationale Behind Bonds | 192 |
| Making your initial selection..... | 192 |
| Following a few rules | 193 |
| Sizing Up Your Need for Fixed-Income Diversification..... | 194 |
| Diversifying by maturity | 194 |
| Diversifying by type of issuer | 194 |
| Diversifying by risk-and-return potential | 195 |
| Diversifying away managerial risk | 196 |
| Weighing Diversification Versus Complication | 197 |
| Keeping it simple with balanced funds (for people with under \$5,000) | 197 |
| Moving beyond the basic (for people with \$5,000 to \$10,000)..... | 197 |
| Branching out (with \$10,000 or more)..... | 198 |

| | |
|---|-----|
| Finding the Perfect Bond Portfolio Fit..... | 198 |
| Case studies in bond ownership | 198 |
| Jean and Raymond, 61 and 63, financially fit as a fiddle..... | 198 |
| Kay, 59, approaching retirement..... | 200 |
| Juan, 29, building up his savings | 202 |
| Miriam, 53, behind on her goals | 203 |
| Seeking out the more exotic offerings | 204 |

***Part IV: Bonds Away! Navigating the
Fixed-Income Marketplace*205**

Chapter 14: Strategizing Your Bond Buys and Sells207

| | |
|--|-----|
| Discovering the Brave New World of Bonds..... | 208 |
| Finding fabulously frugal funds | 208 |
| Dealing in individual bonds without dealing over a fortune | 208 |
| Deciding Whether to Go with Bond Funds or Individual Bonds | 210 |
| Calculating the advantages of funds | 210 |
| Diversifying away certain risks..... | 210 |
| Making investing a lot easier..... | 211 |
| Having choices: Index funds and actively managed funds..... | 211 |
| Keeping your costs to a minimum..... | 212 |
| Considering whether individual bonds make sense | 213 |
| Dispelling the cost myth..... | 213 |
| Dispelling the predictability myth..... | 213 |
| Dispelling the tax myth | 214 |
| Embracing the true benefits of single bonds | 214 |
| Is Now the Time to Buy Bonds? | 216 |
| Predicting the future of interest rates . . . yeah, right..... | 216 |
| Paying too much attention to the yield curve..... | 217 |
| Adhering — or not — to dollar-cost averaging | 218 |
| Choosing between Taxable and Tax-Advantaged Retirement Accounts | 218 |
| Positioning your investments for minimal taxation..... | 219 |
| Factoring in the early-withdrawal penalties and such | 220 |

Chapter 15: Investing (Carefully!) in Individual Bonds221

| | |
|---|-----|
| Understanding Today's Individual Bond Market..... | 222 |
| Getting some welcome transparency | 222 |
| Ushering in a new beginning | 223 |
| Dealing with Brokers and Other Financial Professionals..... | 223 |
| Identifying the role of the middleman | 224 |
| Do you need a broker or agent at all?..... | 225 |

| | |
|--|-----|
| Selecting the right broker or agent | 226 |
| Checking the broker's numbers | 227 |
| Hiring a financial planner | 230 |
| Doing It Yourself Online..... | 231 |
| Proceeding with care | 231 |
| Knowing the cyber-ropes | 232 |
| If you're looking to buy | 232 |
| If you're looking to sell..... | 233 |
| Perfecting the Art of Laddering..... | 234 |
| Protecting you from interest-rate flux | 234 |
| Tinkering with your time frame..... | 236 |

Chapter 16: Picking a Bond Fund That Will Serve You for Life 237

| | |
|--|-----|
| Defining the Basic Kinds of Funds | 238 |
| Mining a multitude of mutual funds..... | 239 |
| Considering the alternative: Closed-end funds | 241 |
| Establishing a position in exchange-traded funds | 241 |
| Understanding unit investment trusts..... | 242 |
| Knowing What Matters Most in Choosing a Bond Fund of Any Sort..... | 243 |
| Selecting your fund based on its components and their characteristics | 243 |
| Pruning out the underperformers..... | 243 |
| Laying down the law on loads | 244 |
| Sniffing out false promises | 244 |
| My Picks for Some of the Best Bond Funds | 245 |
| Very short-term, high quality bond funds..... | 246 |
| Fidelity Short-Term Bond Fund (FSHBX) | 246 |
| State Farm Interim (SFITX)..... | 246 |
| Vanguard Short-Term Investment-Grade (VFSTX)..... | 247 |
| Intermediate-term Treasury bond funds..... | 247 |
| Fidelity Government Income (FGOVX) | 247 |
| iShares Lehman 7–10-Year Treasury Bond Fund (IEF)..... | 248 |
| iShares Lehman TIPS Bond Fund (TIP)..... | 248 |
| (Mostly) high quality corporate bond funds | 248 |
| Dodge & Cox Income (DODIX) | 248 |
| iShares iBoxx \$ Investment Grade Corporate Bond Fund (LQD) | 249 |
| Loomis Sayles Bond Fund (LSBRX) | 249 |
| Junk city: Corporate high-yield funds..... | 250 |
| iShares iBoxx \$ High Yield Corporate Bond Fund (HYG) | 250 |
| Payden High Income Fund (PYHRX) | 250 |
| Vanguard High-Yield Corporate Fund (VWEXH)..... | 250 |
| Agency bond funds | 251 |
| American Century Ginnie Mae (BGNMX) | 251 |
| Fidelity Ginnie Mae Fund (FGNMX) | 251 |
| Vanguard Ginnie Mae Fund (VFIIX) | 252 |

| | |
|---|-----|
| Municipal bond funds: Taxes be damned..... | 252 |
| Fidelity Tax-Free Bond (FTABX) | 252 |
| T. Rowe Price Tax-Free High-Yield (PRFHX) | 252 |
| Vanguard High-Yield Tax Exempt (VWAHX) | 253 |
| International bond funds | 253 |
| American Century International Bond (BEGBX) | 253 |
| PIMCO Foreign Bond, Dollar-Hedged (PFODX) | 254 |
| PIMCO Foreign Bond, Unhedged (PFBDX) | 254 |
| T. Rowe Price International Bond (RPIBX) | 254 |
| Emerging market bond funds..... | 255 |
| Fidelity New Markets Income Fund (FNMIX) | 255 |
| Payden Emerging Markets Bond Fund (PYEMX) | 255 |
| T. Rowe Price Emerging Markets Bond (PREMX) | 256 |
| All-in-one bond funds | 256 |
| T. Rowe Price Spectrum Income (RPSIX) | 257 |
| Vanguard Total Bond Market ETF (BND) | 257 |
| All-in-one bond and stock fund..... | 257 |
| Vanguard STAR Fund (VGSTX) | 258 |

Part V: Bonds As Replacements for the Old Paycheck 259

Chapter 17: Fulfilling the Need for Steady, Ready, Heady Cash . . . 261

| | |
|---|-----|
| Reaping the Rewards of Your Investments | 262 |
| Estimating your target portfolio | 263 |
| Lining up your bucks | 263 |
| Finding Interesting Sources of Interest..... | 264 |
| Certificates of deposit (CDs)..... | 264 |
| Mining the many money market funds | 265 |
| Banking on online savings accounts | 266 |
| Prospering in peer-to-peer lending | 266 |
| Considering the predictability of an annuity | 268 |
| Hocking your home with a reverse mortgage..... | 269 |
| Recognizing that Stocks Can Be Cash Cows, Too (Moo) | 269 |
| Focusing on stocks with sock-o dividends..... | 270 |
| Realizing gain with real estate investment trusts (REITs) | 271 |
| Taking a middle ground with preferred stock..... | 271 |
| Introducing a Vastly Better Way to Create Cash Flow: Portfolio | |
| Rebalancing..... | 272 |
| Buying low and selling high | 274 |
| And what about all that bond interest? | 275 |
| Dealing with realities..... | 276 |

Chapter 18: Finding Comfort and Security in Old Age 277

| | |
|--|-----|
| Looking Ahead to Many Years of Possible Portfolio Withdrawals..... | 278 |
| Knowing Where the Real Danger Lies..... | 278 |
| Finding your comfort zone..... | 279 |
| Setting your default at 60/40 isn't a bad idea | 280 |
| Choosing your ultimate ratio..... | 280 |
| Calculating How Much You Can Safely Tap..... | 281 |
| Revisiting risk, return, and realistic expectations | 282 |
| Basing your retirement on clear thinking..... | 283 |
| Making the Most Use of Uncle Sam's Gifts | 284 |
| Minimizing income is the name of the game..... | 284 |
| Lowering your tax bracket through smart withdrawals | 285 |

Part VI: The Part of Tens 287**Chapter 19: Ten Most Common Misconceptions about Bonds 289**

| | |
|--|-----|
| A Bond "Selling for 100" Costs \$100..... | 289 |
| Buying a Bond at a Discount Is Better Than Paying a Premium, Duh..... | 290 |
| A Bond Paying X% Today Will Pocket You X% Over the Life of the Bond | 290 |
| Rising Interest Rates Are Good (or Bad) for Bondholders | 291 |
| Certain Bonds (Such as Treasuries) Are Completely Safe..... | 291 |
| Bonds Are a Retiree's Best Friend..... | 292 |
| Individual Bonds Are Usually a Better Deal than Bond Funds | 292 |
| Municipal Bonds Are Free of Taxation | 293 |
| A Discount Broker Sells Bonds Cheaper | 293 |
| The Biggest Risk in Bonds Is the Risk of the Issuer Defaulting | 293 |

Chapter 20: Ten Mistakes That Most Bond Investors Make 295

| | |
|--|-----|
| Allowing the Broker to Churn You | 295 |
| Not Taking Advantage of TRACE..... | 296 |
| Choosing a Bond Fund Based on Short-Term Performance | 296 |
| Not Looking Closely Enough at a Bond Fund's Expenses | 297 |
| Going Through a Middleman to Buy Treasuries | 297 |
| Counting Too Much on High-Yield Bonds | 297 |
| Paying Too Much Attention to the Yield Curve..... | 298 |
| Buying Bonds That Are Too Complicated..... | 298 |
| Ignoring Inflation and Taxation | 299 |
| Relying Too Heavily on Bonds in Retirement | 299 |

Chapter 21: Ten Q & A's with Bond Guru Dan Fuss 301

***Part VII: Appendix*.....305**

Appendix: Helpful Web Resources for Successful Bond Investing307

- Bond-Specific Sites.....307
- General Financial News, Advice, and Education308
- Financial Supermarkets308
- Bond Issuers and Bond Fund Providers.....309
- Best Retirement Calculator309
- Regulatory Agencies310
- Where to Find a Financial Planner310
- Yours Truly.....311

***Index*313**

- [Encyclopedia of Human Behavior \(2nd Edition\) for free](#)
- [Wisdom From The Ancients: Enduring Business Lessons From Alexander The Great, Julius Caesar, And The Illustrious Leaders Of Ancient Greece And Rome pdf, azw \(kindle\)](#)
- [read Delicious Dishes for Diabetics](#)
- [download online Requests and Culture: Politeness in British English and Japanese](#)
- [read online Crusader \(The Sanctuary Series, Book 4\) pdf](#)
- [read Star Trek: Creative Couplings Book 2 \(Star Trek: Corp of Engineers, Book 48\)](#)

- <http://www.satilik-kopek.com/library/Shannach--The-Last.pdf>
- <http://kamallubana.com/?library/The-Noh-Drama--Ten-Plays-from-the-Japanese.pdf>
- <http://studystategically.com/freebooks/Math-Geek--From-Klein-Bottles-to-Chaos-Theory--a-Guide-to-the-Nerdiest-Math-Facts--Theorems--and-Equations.pdf>
- <http://qolorea.com/library/Requests-and-Culture--Politeness-in-British-English-and-Japanese.pdf>
- <http://test1.batsinbelfries.com/ebooks/Crusader--The-Sanctuary-Series--Book-4-.pdf>
- <http://twilightblogs.com/library/Foundation-Web-Design-with-Dreamweaver-8.pdf>