
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 Bonds87
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 Bonds101
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 Bonds111
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>