CREATING PROSPERITY BY CONNECTING INVESTMENT OPPORTUNITIES TO INVESTORS

Dutch Caribbean Securities Exchange

INVESTORS' CORNER

What's in a Bond?

Part 2

"In investing, what is comfortable is rarely profitable."

Robert Arnott

This is the continuation of a two part series on Bonds. Part 1, which discussed the features of a bond, is available at www.vertexinv.com or at www.dcsx.cw.

After deciding that you have the appetite for bonds, here are a few tips to be mindful of when investing in them:

1. Know your objectives; why are you investing? Do you need a steady stream of income on a periodic basis – say quarterly - or do you need to let your money grow as quickly as possible without withdrawing from it? If it is the former, a bond is the perfect option to get periodic cash flow from the interest on the bond, which can then be used to supplement periodic living expenses.

2. Low Risk doesn't mean No Risk. Despite being considered low risk relative to stocks, bonds are exposed to default risk – the risk that the borrower will not pay you back. To help with this, it is important that you assess the issuer of the Bond to make sure that they are financially healthy to cover their obligations under the bond.

3. Not all bonds are created equal. There are Government Bonds and Corporate Bonds, there are Investment Grade Bonds and High Yielding Bonds (Junk Bonds). Read the Bond Prospectus or Indenture to get information about the bond and the issuer before you make a purchase. Also, rating Agencies like Moody's and Standards & Poor's assess issuers and their bonds. They provide standardised ratings which makes it easier for you to compare bonds across country, issuer and features. Take this into consideration when deciding.

4. Know your time period. If you are working with a short time period for your investment goal, say less than 5 years, then buying bonds may be the better way to go rather than stock investment. This is because, a short period doesn't allow much time for recovery in potentially large declines in your investment which is more likely to happen in stock investments.

5. Don't let inflation wipe out your interest. Be aware of the inflation rate. Because your coupon is most times a fixed amount each payment date, if inflation is increasing then the purchasing power of the periodic income will decline. Be mindful of this.

6. Plan to reinvest your interest. If there is no need for the periodic interest payment to cover your living expenses, then it would be better to reinvest the interest. Set up an account where the interest payment will be deposited and reinvested automatically – in new bonds or other investments - so that you will not be tempted to spend it.

7. Diversification on a restrictive budget. Diversification is the key for successful investment. If you are starting out and are unable to buy a lot of or several different bonds, then buying into a Bond Fund may be the way to go. This offers you a higher level of diversification. Plus you will get the benefit of professional research and money management.

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