Fixed income 101: the terms and concepts you need to know

New investors always get attracted to stock markets first. They're interesting, all about business, bustling, and always in the news. The bond market, on the other hand, is not only boring, it's also more challenging to get your head around. On top of that, it contains a lot of terminology that isn't exactly intuitive for a new investor. Today, we break down the **most important concepts and terms** for those looking to invest in the bond market.

What is a bond?

A bond is just like a loan. It is **money borrowed by the government or companies to finance their operations**. Bonds, in particular government bonds, are considered a **relatively safe** type of investment. Because of that, their returns are also low. Government bonds, especially those of a stable developed country, are considered the safest investment compared to other types. The yields on bonds in emerging markets is higher. That said, those bonds are also associated with more risk, mostly connected with political volatility. To buffer some of that risk, investors often opt to buy these bonds in US dollars. This protects them against any devaluation in the local currency.

What are ratings agencies?

Ratings agencies rate bonds so that investors can just look at the rating to determine its **risk of default**. Bonds rated **AAA are considered the least risky**. Anything from that level down to BBB is considered **investment grade**. B and BB rated bonds are higher risk but also offer a better yield. The most well known ratings agencies include **Moody's and Standard and Poor**. While these ratings give the investors a good idea on the safety of their investment, it is still a cumbersome job to choose the right bonds for investment, and seeking out investment advice is recommended.

Some common terms

Here are some other common terms associated with bonds that you'll need to know.

1. **Offer period:** The time period that a newly announced bond is **opened for applications**.
2. **Maturity:** The lifespan of a bond. Bonds are usually named accordingly, such as the **UK 10 Year Gilt**. During this period of time, investors receive interest payments.
3. **Coupon:** The amount of returns a bondholder receives at regular intervals until the maturity date of the bond. This is not the same as the yield, which is calculated and varies according to the price of the bond.

4. **Par value:** The face value of a bond. It is the total amount that will be **repaid to the bondholder at the date of maturity** of the bond, provided the bond provider does not default.

A company's bond v. its shares

In order to invest in a company, one can buy its shares or bonds, or a combination of both. If a company goes bankrupt, the bondholders of that company take **priority over shareholders in receiving their money**. With the current bond market continuing its record bull run, fixed income assets like bonds aren't so attractive for now. Still, they offer investors much needed diversification to survive market downturns that always arrive when they're least expected. Contact your financial advisor to learn more about the process and benefits of bond investing.