

A Risky Looking Bond May Not Be What It Appears

SUMMARY:

Many investors who are tolerant of the risks of owning stocks, even growth stocks with outrageously high price/earnings ratios, categorically refuse to consider a below investment-grade bond. These lower rated bonds are called High Yield (or Junk) Bonds. This may be overlooking a potentially profitable security whose risk characteristics you could find acceptable as part of your portfolio. Understanding a corporation's financial situation and the research analysis which has led to its stock being recommended may go a long way toward easing fears of purchasing a BB-rated situation. A "Make Whole Default Call" may also bring added comfort. Similarly, bond ratings do not change as quickly as the news that leads to them. For example, any pending take-over details or presence on the watch list for positive indications may be additional factors to consider in evaluating the bond's risk level.

When investing in bonds, it is important to note that as interest rates rise, bonds prices will fall.