KAF PERSONAL FINANCE EDUCATION SERIES

BEGINNER'S GUIDE TO BOND INVESTING

Bonds are a type of investment that many people are familiar with but may not fully comprehend. "What are bonds?" you may be wondering.

This article will provide a general understanding of bonds and how they operate. We'll also go through some of the benefits and drawbacks of bond investments.

If you're considering adding bonds to your portfolio, this quick primer is an excellent place to start.

What are Bonds?

A bond is often a long-term debt security provided to investors by firms or governments (the issuer) to cover their funding needs. Sukuk is a bond that is issued in accordance with Shariah principles.

Investors who purchase bonds or sukuk become bondholders or sukuk holders. They are entitled to a periodic coupon or a return on the main or nominal amount raised by the issuer, and the principal amount will be repaid to the bond or sukuk holder at maturity. Consider it as financing a corporation a primary sum for a set period of time, getting a specified return at predetermined intervals, and finally collecting the principal amount.

How Do Bonds Work?

Corporations and governments issue bonds to raise funds. You effectively lend money to the issuer when you buy a bond. In exchange, the issuer undertakes to pay you interest (a coupon) and redeem the bond's principal, or face value, when it matures. Bond prices fluctuate in the secondary market, and their yields (interest rates) respond to changes in interest rates.

The interaction between risk and return determines the market price of a bond. Bonds, like other debt securities, are subject to interest rate risk, which is the risk that changes in interest rates would affect the bond's market value.

Equities vs Bonds

Equities or commonly known as stocks and bonds, are the two most prevalent forms of assets for the institutional investor. Equities indicate a firm's ownership, but bonds are effectively loans given to a corporation or government. Both have their own set of risks and benefits, and understanding the differences is critical for making sound investing decisions.

Equities are often more volatile than bonds. This implies they can lose value fast in a depressed market, but they also have the potential to deliver larger long-term returns. Bonds, on the other hand, are far more stable, although they normally yield smaller returns. When deciding between equities and bonds, investors must consider the risks and benefits to make the best selection.

Bottom Line

Bonds are an important aspect of the financial markets. In turn, there are several reasons why bond investment may be appropriate for investors. Bonds, although not providing the spectacular returns that certain growth equities provide, do give stability and consistent growth over time. Individual investors may find them to be an excellent investment opportunity. Now that you have read this brief article, you should have a better grasp of what bonds are and how they function, allowing you to make an educated and informed decision on your portfolio.

Retail investors can access KAF Investment Funds' selection of bond funds to help you to potentially generate a steady and stable source of income. These funds are managed by professional fund managers who invest in a diversified portfolio of assets, which can offer a higher level of expertise and potential for better returns compared to individual investors. Investing with KAF Investment Funds is a simple process through https://www.eunittrust.com.my/Home/KAF through small investments, making it accessible for retail investors.