CANACCORD Genuity
Wealth Management

To us there are no foreign markets.™

Investor Insight

Dekker Hewett Group | Independent. Trustworthy. Experienced.

Education: Corporate Bonds

As corporations have continued demand for capital to grow or refinance, many have been turning to fixed-income markets to raise this capital. This may be due to a variety of reasons. Issuing debt provides a way for companies to raise capital without diluting current shareholder equity (which would be the case if shares were issued). With bonds, many companies are able to borrow at a lower interest rate, or with better terms, than would be available with the banks.

An Opportunity?

As interest rates have declined and the yields on government bonds have decreased to low levels, the spread between the yield on corporate and government bonds has increased, making corporate bonds comparatively attractive. As investors consider investing a proportion of their portfolio in the fixed income market, the attractiveness of corporate bond returns may be appealing.

Investor Considerations

One of the advantages to investing in a corporate bond is that there is a steady stream of income over the life of the bond. Another advantage is that the face value of the bond is paid back at maturity. Thus, unlike equities, the returns earned throughout the life of the investment are in addition to the principal that is returned upon the termination of the investment. By allocating a proportion of your investments in fixed income investments, these two advantages may help to temper the volatility of your overall investment portfolio.

However, corporate bonds may not be a choice for everyone. Bonds can be less liquid than stocks, meaning that they may be more difficult to trade. In Canada, many bonds are traded by major dealers through their own facilities, not through exchanges.

Furthermore, if and when interest rates rise, the spreads that may be a result of today's market situation will begin to contract. And, there is always a risk of default, so it is important to understand the financial position of the company for which you are considering buying bonds. Yet, over an extended market period, the default experience on investment-grade corporate bonds has been comparatively low.

Dekker Hewett Group
Canaccord Genuity Wealth Management
609 Granville St., Vancouver, BC, V7Y1H2
T: 604.699.0807
E: dhginfo@canaccord.com
www.dekkerhewettgroup.com

“One of the advantages to investing in a corporate bond is that there is a steady stream of income over the life of the bond”

Finally, corporate bonds are generally sold in larger quantities, thereby making it more difficult to create a diversified portfolio. While it may still be possible to purchase or sell specific bonds in smaller quantities, the total returns that may be available may be less attractive. Exchange-traded funds (ETFs) and bond mutual funds may therefore be alternatives to consider as they may provide diversification and reduce the risk of exposure to such things as a particular bond’s default.

Get More Information

Should you consider investing in fixed-income securities like corporate debt? Please get in touch if you are interested in discussing specific opportunities.