Different Types of Bonds

Investing in bonds is very safe, and the returns are usually very good. There are four basic types of bonds available and they are sold through the Government, through corporations, state and local governments, and foreign governments.

The greatest thing about bonds is that you will get your initial investment back. This makes bonds the perfect investment vehicle for those who are new to investing, or for those who have a low risk tolerance.

The United States Government sells Treasury Bonds through the Treasury Department. You can purchase Treasury Bonds with maturity dates ranging from three months to thirty years.

Treasury bonds include Treasury Notes (T-Notes), Treasury Bills (T-Bills), and Treasury Bonds. All Treasury bonds are backed by the United States Government, and tax is only charged on the interest that the bonds earn.

Corporate bonds are sold through public securities markets. A corporate bond is essentially a company selling its debt. Corporate bonds usually have high interest rates, but they are a bit risky. If the company goes belly-up, the bond is worthless.

State and local Governments also sell bonds. Unlike bonds issued by the federal government, these bonds usually have higher interest rates. This is because State and Local Governments can indeed go bankrupt – unlike the federal government.

State and Local Government bonds are free from income taxes – even on the interest. State and local taxes may also be waived. Tax-free Municipal Bonds are common State and Local Government Bonds.

Purchasing foreign bonds is actually very difficult, and is often done as part of a mutual fund. It is often very risky to invest in foreign countries. The safest type of bond to buy is one that is issued by the US Government.

The interest may be a bit lower, but again, there is little or no risk involved. For best results, when a bond reaches maturity, reinvest it into another bond.

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