What you NEED to look at when buying bonds

Pros look at these factors, and you should, too.

Bond Characteristics
-Yield to maturity
-Price
-Maturity
-Credit Quality
-Interest Rate

Interest rate risk:
When you buy a bond, you lock in a specific interest rate that you'll earn until the bond matures. Assuming the issuer of the bond remains solvent, you'll receive your interest payments (usually every six months), and on the
"maturity date" you'll get the principal value of the bond. That's what happens in most cases. But…
When interest rates rise, people who have locked in a lower yield discover that their bonds decrease in value. For example, let's say you own a $50,000 bond that pays 3%. After you have bought the bond, if rates for similar issues
rise, say to 5%, the principal value of your investment drops. It drops, since a 3% return pales in comparison to a 5% yield. If you hold your 3% bond to maturity, you will get your principal paid back, but if you need to sell it beforehand, you will likely lose money. That is interest rate risk – the fear that if you have to sell your bonds before maturity you'll potentially lose out on regaining your full principal.

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