

An Alternative Source for Income



One alternative source of income you may not be familiar with is exchange-traded debt (ETD). Also referred to as preferred equity traded (PET) bonds, these are debt instruments that trade like stocks. Like any other investment vehicle, they have unique risks that should be considered before purchase.

ETDs are debentures, notes and bonds. Unlike traditional bonds, which trade on the bond markets and are listed by CUSIP numbers, ETDs trade on stock exchanges and are listed by ticker symbols, just like stocks are. ETDs have par values of \$25, instead of the typical \$1,000 par value bonds are issued with. You can trade an ETD through an online broker just as you would a stock.

Though they trade like stocks, ETDs pay interest, not dividends. This means the coupon payments are taxable at ordinary income rates, not the discounted 15%/20% tax rate qualified dividends are eligible for. The coupon payments are made quarterly, where as traditional American bonds pay interest on a semiannual basis.

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