

# Closed-End Bond Funds Versus Individual Bonds – A Case Study

This week's AAI **Weekly Digest** highlights these “must-read” AAI articles:



## **What Bond Calls Mean for Your Cash Flow**

In a falling interest rate environment, or in one where interest rates have fallen in the not-too-distant past, it is especially important for investors to understand bond calls if they own individual bonds, bond funds, annuities or life insurance. Call provisions allow an issuer to redeem a bond. The type of call provision and the yield to call should be considered before purchase.

## **Closed-End Bond Funds Versus Individual Bonds: A Case Study**

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*Richelson*

Closed-end bonds may look attractive based on their yields and discounts to net asset value, but there are pitfalls to watch out for. This article is a case study of a defined-maturity closed-end fund. The analysis is not intended to criticize any specific fund, but rather to demonstrate where risks and pitfalls may lie with a closed-end bond fund (particularly a defined-maturity one) and how to go

about identifying them.



## Bond Pricing Made Simple

Many investors know that a bondholder receives periodic interest payments from the bond issuer and that principal is usually not due until the bond matures. But when asked to explain the difference between coupon and yield, or what the risk of a bond is, confusion and misunderstanding can exist. This article provides an introduction to bonds and a simple formula for pricing bonds.

## How Credit Ratings Affect Bond Valuations



There is widespread misunderstanding about what credit ratings really mean, and how they affect the returns that you earn and the overall riskiness of your portfolio. Investors generally rely on bond ratings to evaluate the credit quality of specific bonds. Credit ratings indicate on a scale of high to low the probability of default; that is, the probability that debt will not be repaid on time in full. In plain English, ratings answer two questions: How likely am I to get my money back at maturity, and how likely am I to get my interest payments on time?

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### **Our Member Question for this week is:**

Non-qualified and qualified dividends each have a different tax rate. Non-qualified dividends are currently taxed as ordinary income at a rate of up to 39.6%, while qualified dividends are currently taxed at a lower rate of up to 20%. Do you consider the tax implications of qualified versus non-

qualified dividends when selecting dividend-paying stocks?

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### Vote to answer this week's Special Question:

If you invest in dividend-paying stocks, what factor(s) do you consider when gauging the safety of the dividend stream moving forward?

### Last Week's Results:

**Would you consider, or are you using, a Home Equity Conversion Mortgage (commonly known as a reverse mortgage)?**

**I would never consider a reverse mortgage : 59%**

**I would consider a reverse mortgage if my retirement income needs were not being met : 31%**

**I don't know enough about reverse mortgages to say : 8%**

**I will probably use a reverse mortgage to tap into the equity I have in my home : 2%**

**I currently have a reverse mortgage : 1%**

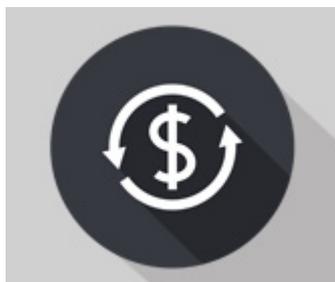
*Poll results are as of 9 a.m. (Central) on Monday. 1,959 respondents.*



### [AAll Readers Offer Opinions on Reverse Mortgages & Transitioning to Retirement](#)

According to some estimates, over 10,000 Baby Boomers are retiring every day. Some will have probably have trouble finding the retirement income to fund the retirement lifestyle they were hoping for, while others will have issues transitioning from working to retirement. To hear our

readers' views on both of these topics, we asked them what they felt about reverse mortgages as well as the problems they experienced as they left the workplace and entered retirement.



### **AAll's Guide to Direct Purchase and Dividend Reinvestment Plans**

Dividend reinvestment plans have long been popular among shareholders interested in reinvesting dividends at a low cost. There are several advantages for investors who participate in these plans: Dividend payments are put to work, transaction costs are eliminated or held to a minimum, and the additional shares are purchased gradually over time. This guide to direct purchase and dividend reinvestment plans, available exclusively to AAll members, highlights some of the best AAll has to offer. It highlights two different types of dividend reinvestment plans and how they work.

The AAll Weekly Digest is one of the many **benefits** of AAll membership. To learn more, consider a **risk-free Trial AAll Membership** to start becoming an effective manager of your own assets.