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How To Build Your Own Bond Portfolio.

Summary

- The best way to build a bond portfolio is to start by thinking about the risks.
- Treasury—all interest rate risk. Investment-grade corporates—some credit risk, some interest rate risk. High-yield corporates—mostly credit risk (they behave like stocks).
- The other thing you need to consider is the length of maturity you want. The idea is to spread your risk along the interest rate curve.
- Short-term bonds = less interest rate risk and less credit risk. Long-term bonds = more interest rate risk and more credit risk.
- The key here is diversification. And yes, this is more art than science. But the bond market is much larger than the stock market. For many reasons, it is not clever to avoid it altogether.

Continue reading.

Seeking Alpha

by Jared Dillian

Sep. 8, 2019

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