

PRINCIPLES OF FIXED-INCOME INVESTING

There's more to bond investing than focusing on the current interest rate. We believe it's important to understand how our investment principles – focus on quality, invest for the long term and diversify – relate to your investment decisions. By focusing on our three investment principles and keeping your strategy simple, you should be able to achieve reliable income, principal preservation and the ability to help reduce overall portfolio risk.

Keep It Simple

Before investing, you should discuss your goals with your Edward Jones advisor and determine an appropriate asset allocation. The two broadest asset classes are fixed income and equities.

- Fixed-income investments include bonds and preferred shares, which promise to make timely interest payments and return your principal upon maturity or redemption. However, that money doesn't keep pace with inflation.
- Equities include stocks and stock mutual funds that can offer potential rising income through dividend growth, helping combat inflation. However, historically stocks fluctuate more and the potential loss of principal is greater.

Equities and fixed income tend to move in opposite directions, which can help smooth out your investment performance. That's why it's important to have the right balance between each in your portfolio.

Once you've determined the right asset allocation between equities and fixed income, think about how to invest your money. When it comes to fixed income, we recommend keeping it simple. In addition to owning GICs, most investors shouldn't venture past the two major bond categories: government and corporate.

While preferred shares suitable for income may play a useful role in your portfolio, we believe they aren't required to build an appropriately diversified portfolio. In fact, preferred shares should make up no more than 5% of your portfolio.

Focus on Quality

Reliable income is an important goal of most bond investors. When you're buying bonds, don't be tempted by lower-quality bonds paying higher rates. Along with these higher rates come greater price volatility and the

increased risk that these bonds will fail to make interest payments, as shown in the following chart. Because of the lower default risk of higher-quality bonds, we recommend 85% of your portfolio comprise bonds and preferred shares issued by companies rated AAA, AA or A. Although bonds with a BBB rating are investment-grade quality, they should make up only a small portion of your portfolio.

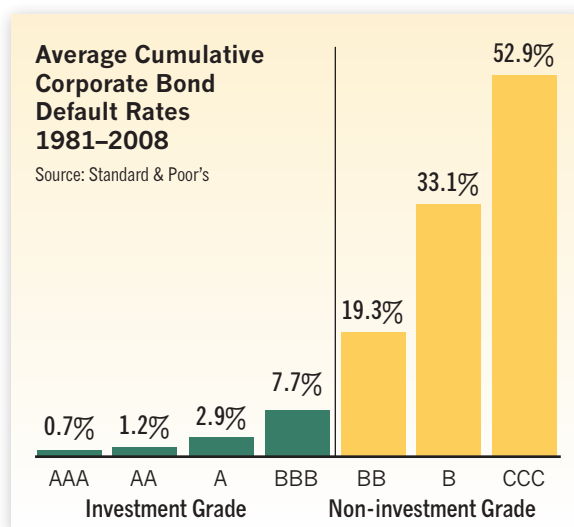
Invest for the Long Term

We recommend buying bonds with the intent of holding them until they mature or are called (redeemed) by the issuer. Unless the bond defaults, this can provide you with interest payments and the return of your principal upon maturity or call. Although some investors are tempted to jump into and out of the market as interest rates and bond prices change, we believe you should buy bonds for the current income they provide. The bond market is as unpredictable as the stock market. Don't try to predict interest rates. Instead, help manage your risk by owning a variety of bonds with different maturities.

“Buy and hold” doesn't mean “buy and ignore” – Over the life of a fixed-income investment, credit ratings can change based on an individual company's outlook. If a bond is rated AAA, AA or A, it will still be investment grade with one or two

downgrades. A downgrade from BBB to BB+ or lower means it's in the high-yield or “junk” category. The risk of failing to make timely interest and principal payments increases significantly when a bond is rated below investment grade.

If you have to sell a bond or preferred that has declined in credit quality, the market price may be significantly lower at time of sale. It's important to review your fixed-income investments periodically to make sure they still align with your goals and comfort level with risk.



Diversify

You should strive to diversify your fixed-income investments. Some investors may benefit from owning bond funds because they can offer the following benefits:

- Diversified credit risk
- Professional management

As with any investment, there are trade-offs. Bond funds don't offer a set maturity date or fixed rate of income because bonds are continually being bought and sold within the fund. Additionally, they don't offer a predictable income stream because bond fund income will likely rise and fall with changes in interest rates. In fact, we generally recommend reinvesting any income from bond funds when possible rather than depending upon that income.

Bond funds may be appropriate regardless of the amount you have to invest. We believe any money you want to invest in specialty (niche) fixed-income areas, such as high-yield bonds, should be done through mutual funds.

If you prefer to own individual bonds, work toward ensuring that no more than 5% of your total portfolio be invested in any one issuer and that you diversify by issuer and maturity as outlined below.

Diversify by maturity – Commonly referred to as laddering, this means you invest an appropriate amount in short-, intermediate- and long-term bonds. Laddering can help balance the risk of price and income changes to smooth out wide swings in your income and principal. We recommend the following ranges when building your bond ladder:

	Percentages Based on Fixed-income Portion of a Portfolio
Short-term (up to 5 years)	25% - 35%
Intermediate-term (6-15 years)	40% - 50%
Long-term (16+ years)	20% - 30%

Start with short-term investments – Typically, bonds or GICs in one- to five-year maturities are appropriate, so you'll always have money coming due and to guard against the risk that the value of your investments will decline if interest rates rise. Then you can add intermediate- or long-term bonds as you have money available to complete your ladder over time. If you choose to own preferred shares, they should be included as part of the long-term portion of a ladder.

Diversify by issuer – Owning bonds and preferreds from a variety of types of issuers also can help reduce overall risk. We suggest a combination of GICs and government and corporate bonds. Quality corporate bonds usually pay higher interest rates than government bonds, reflecting their slightly higher risk, and as a result we suggest:

	Percentages Based on Fixed-income Portion of a Portfolio
GICs	10% - 20%
Government	30% - 45%
Corporate	40% - 60%

GICs – GICs are short-term savings investments issued by banks, trust companies and credit unions. Since GICs are insured up to \$100,000 per depositor for each institution, they are of high credit quality up to the CDIC insurance limits. However, GICs must be held until maturity. They cannot be sold, redeemed or transferred from one account to another. This lack of liquidity reduces their overall attractiveness. In addition, since GICs have short maturities, they are more impacted by reinvestment risk. As a result, while GICs may be suitable for the cash portion of your portfolio, they may not be as appropriate for the short-term portion of a fixed-income ladder.

Government – Government bonds include Canadian federal government bonds, provincial and municipal bonds, bonds of foreign governments and real-return bonds. Because these bonds possess the highest credit quality, including them in your portfolio is a good way to enhance the overall quality of your fixed-income holdings. Historically, they've given investors relatively attractive returns on a risk-adjusted basis. In addition, government bonds and real-return bonds are typically noncallable; therefore, they can help improve the overall call protection of your portfolio.

Corporate – Corporate bonds are categorized into three industry sectors: financial, industrial and utility. We recommend you own bonds from each category. That way, if a particular industry experiences some problems, you'll own other bonds that likely aren't affected by the same factors. For instance, if you primarily own financial bonds, we recommend you consider industrial or utility bonds, even if they offer a slightly lower rate. Review the recommended percentages below to help you better diversify the bonds in your portfolio.

	Percentages Based on Corporate Bond Holdings
Financial	40% - 55%
Industrials	25% - 40%
Utilities	10% - 30%

As stated before, a bond's interest rate shouldn't be the primary reason you purchase it. Even if bonds from a specific sector offer slightly higher rates than those of equal credit quality in other industries, we believe you will be better off buying a mix of bonds from a variety of sectors.

International – U.S. dollar bonds, as well as bonds that make interest and principal payments in another foreign currency, offer attractive rates at times and also include a wider variety of corporate issuers, which may improve the diversification of your bond portfolio. Most importantly, consider owning U.S. dollar bonds to provide income to match any U.S. expenses you expect. We recommend up to 15% of your portfolio be invested in international fixed income, mainly in individual bonds that pay in U.S. dollars. For those who want to add broader international fixed-income exposure, we believe it is prudent to use bond funds that are widely diversified and primarily own developed-country bonds. However, international bonds aren't appropriate for everyone. You may not need to own bonds issued in U.S. dollars or other foreign currencies, since they add currency risk to your portfolio.

If you're looking for current income, work with your Edward Jones advisor to determine which types and amounts of bonds are appropriate for you.

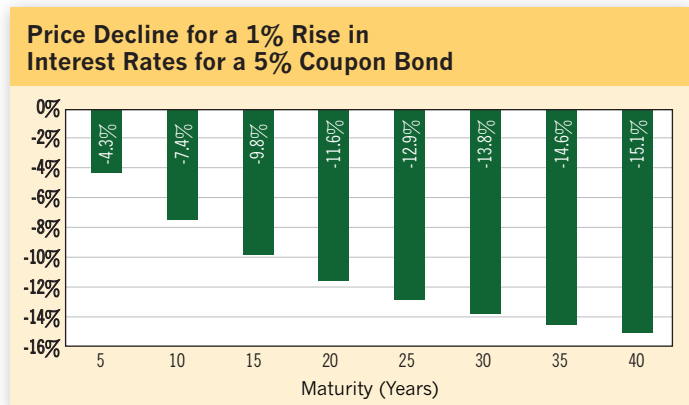
Diversification does not guarantee a profit or protect against loss.

Bond Prices and Interest Rates

The income you receive from bonds is fixed, but the market value of a bond will vary over time, usually due to interest rate movements. Much like a teeter-totter, bond prices and interest rates move in opposite directions. The longer the maturity of a bond, the larger the move in bond prices when interest rates change. When interest rates rise, bond prices typically fall. The opposite is also true, although bonds that can be called by the issuer have limited opportunity to appreciate in price because the call price acts like a ceiling, keeping prices from rising.

If you own bonds, this relationship only affects the market value, or the approximate amount of money you would receive if you decided to sell an investment prior to the date it matures. The interest payments you receive are not affected. And if you hold the bond until maturity, you can still expect to receive the original face amount. However, preferreds that are perpetual – meaning they have no set maturity date – will have the price sensitivity of very long term bonds since there is no timetable when principal will be returned. In addition, since preferred shares have an infinite maturity, unlike bonds, the price sensitivity will not decline over time.

The following chart illustrates the teeter-totter effect — the prices of longer-term bonds fluctuate more than those of shorter-term bonds. This example shows how much prices of bonds with a 5% rate will fall if interest rates rise 1%. With a 2% rise in interest rates, price declines in bonds would almost double.



Source: Edward Jones calculations. This example is for illustration only and does not represent any currently available investments.

Watch the Call

Some bonds are “callable,” meaning the issuer can call or redeem the bond before its actual maturity date. It's more difficult to ladder with callable bonds because you don't really know how long you'll own them. A bond with a call provision typically offers a slightly higher rate to compensate you for the risk of the bond being redeemed early. The risk of a bond being called can increase significantly if interest rates fall but is generally lower when interest rates rise.

This call feature benefits the issuer, who can refinance the bond at a lower rate. Callable bonds increase your reinvestment (or income) risk. This means that if a bond is called and interest rates are lower, as is typically the case, you'll have to reinvest your money at a lower rate.

You should try to limit the amount of bonds you own that are callable, when possible, and provide some variety in the call dates of the callable bonds you own. In addition, noncallable and Canada yield call bonds* should be included in bond portfolios when appropriate to help diversify call risk.

*A Canada yield call provision allows bonds to be called at any time, but issuers have to pay a higher premium to redeem bonds when interest rates are declining. It provides bondholders with compensation for missed interest payments due to the call. Since issuers aren't expected to redeem this type of bond, it provides better call protection for investors than typical callable bonds.

Please talk with your financial advisor about your individual fixed-income portfolio construction. He or she can recommend investments tailored to your specific portfolio objective.

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