Bonds ain't always Bond when it comes to earning

DOLLARS AND SENSE
DAVID FRENCH

SHARES VS BONDS: Bond may be the superspy, but Miss Moneypenny's the one back at her desk, booking the Aston-Martin in for its service and paying 007's bills. Picture: File

IN A healthy investment portfolio, it's the shares that get the lion's share of attention.

Sexy, show-off shares with their equal come-hither promise of risk and reward, they are the 007 of the investment world.

Float some new shares and the *Financial Review* journalists will dedicate you a page. Introduce a new bond, on the other hand, that probably won't warrant three lines.

Bonds aren't 007, they aren't James Bond. They're more like the ever-reliable, on-time but often overlooked Miss Moneypenny. So let's take another look at what these hardworking bonds-not-Bonds have to offer.

First, when it comes to commitment to pay, remember the saying "my word is my bond". When you enter into a bond with a company to lend them money, they promise when they will pay you back and how much.

No matter what happens in the market, whether the Reserve Bank changes the interest rates, whether the price of martinis go up, the company commits to pay you the bond's face value at its expiry date. By law, you are first in the repayment queue, above shareholders, for example. Dull old Miss Moneypenny is in the door, cheque in her purse, while 007 is waiting outside, cap in hand.

Now, in most cases, what you put into a bond at the outset is the same as what you get back at the end. And we all know that the buying power of a given dollar amount decreases over time.

So where's the incentive in "lending", say, $5000 to a company for five years if, after five years, they'll give you back the same $5000?

The answer is coupons. Yes, just like the savings coupons Grandma used to clip out of the paper and put in her purse, except these coupons give you cash.

They might be three or six-monthly coupons, but each of them guarantees you'll get paid throughout the term of the bond, usually a fixed amount. They turn up like clockwork, as regularly as the old card from Nanna with $5 inside, only bigger.

And these coupons have been pre-calculated to offer you a return on your investment over and above what you'd make leaving it in the bank, for example. The calculations are tricky, because they have to predict market fluctuations over time, but the people who do those calculations know their job.

The other incentive is in timing the bond's maturity to a known event on your life calendar. Want to trade the car in for a new model every 10 years? Put the money into a bond now, enjoy your coupons along the ride, and the car money will be waiting for you as if on cue. Got a child finishes high school in five years time? Time another bond to mature about the time you want them to go to college (but they say they're going on a gap year).

Save to put a down payment on a beach house, to renovate the downstairs bathroom, to celebrate your 20th anniversary on board a Caribbean cruise... the bond's very predictability, its quiet subservience, is why it suffers the unfair reputation of being dull and boring. Layer a few of them in the same portfolio and you've got a veritable handful of Miss Moneypennys quietly taking good care of your future.

And unlike bank deposits, there's no penalty for cashing in a bond early. In the event of something unforeseen whether that's bad (illness) or good (a better investment opportunity), the only downside may be selling them at a discount.

So remember... just because James Bond is driving a sportscar at speed along the Riviera and dismantling the nuclear submarine controls while simultaneously pashing the doe-eyed daughter of a Russian mobster doesn't mean he's the only one saving the world.

Miss Moneypenny's the one, back at her desk, booking the Aston-Martin in for its service and paying 007's bills, who's the unsung hero of the espionage world.

So when it comes to your investment portfolio, don't overlook trusty bonds as the perfect foil to some flashier shares. Speak to your financial planner about timing the maturity dates on some "boring" old bonds to coincide with pivotal and exciting life events.

Because if shares are all tuxedos and martinis, then bonds are a warm cardigan and a good cup of tea.... and sometimes that's just what you need.