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Companies and government entities issue bonds to raise money for different reasons, including financing operations.

When you invest in bonds, you essentially loan money to the issuing organization and become a creditor.

Over time, that money must be repaid, with interest.

When you buy a bond, you typically receive interest payments at regular, predetermined intervals.

These payments are based on a fixed annual rate, also known as the bond's coupon rate.

You can also expect to be paid the bond's full face amount at its stated maturity date, barring default by the issuer.

Let's say you decide to purchase a bond for \$5,000, with a coupon rate of 5% and a maturity of five years.

This means you'd receive \$250 of interest every year for the next five years.

At the end of those five years, the bond would mature and you'd get your initial \$5,000 back.

Bonds can be categorized as short-term, intermediate-term, or long-term depending on their maturity dates.

There is no universal definition for these terms, but in general, bonds with a maturity of three years or less might be considered short term, bonds with a maturity of three to ten years could be considered intermediate term, and bonds with a maturity of more than ten years may be considered long-term.

Treasury securities are categorized differently, with T-bills having a maturity of less than one year, T-notes maturing in one to 10 years, and T-bonds maturing in 10 to 30 years.

Generally, interest rates are higher on bonds with longer terms because they pose more risk.

Why invest in bonds?

You might choose bonds if your goal is to generate a steady stream of income or if you'd like to diversify your portfolio.

Bonds are typically less risky than stocks and can therefore help balance the ups and downs in a growth-oriented investment strategy.

Bonds may be purchased in denominations as low as \$100, though brokers may have a much higher minimum purchase requirement.

For this reason, many investors choose bond mutual funds, which are pooled investments that combine many different bonds into one portfolio.

A professional fund manager decides which bonds to buy and sell based on the fund's stated objective, which can be found in the fund's prospectus.

The prospectus includes information about the fund's underlying investments, risks, fees, and expenses.

It should be read carefully before you invest or send money.

Keep in mind that the prices of bonds and bond funds may fluctuate with market conditions, so they may be worth more or less than their original cost when redeemed.

Investments seeking higher yields also involve a higher degree of risk.

Bond funds are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds.

As interest rates rise, bond prices typically fall, which can adversely affect a bond funds performance.

Investing in bonds and bond mutual funds can help you pursue your investment goals, as long as you fully understand both the potential risks and rewards.

Before making any decisions, review your financial goals, time horizon, and risk tolerance, and consider speaking with a financial professional.

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