



# HIGH YIELD BONDS

High yield bonds are issued by organizations that do not qualify for “investment grade” credit ratings or do not have a rating. They may also be issued by organizations with a rating that was lowered to below investment grade since first being issued by a leading credit rating agency. These bonds offer higher interest rates and yields than investment grade bonds, but they may also have a greater risk of default or not paying interest in a timely manner.

## PRODUCT HIGHLIGHTS

High yield bonds (also called non-investment grade bonds, junk bonds or non-rated bonds) are fixed income investments that can be purchased by individual or institutional investors as appropriate for their financial needs—typically as part of a well diversified investment portfolio. They offer several benefits and risks:

- Potential for a higher rate of interest and yield than investment-grade bonds
- Potential for capital appreciation
- Total return opportunity
- Higher default, downgrade, credit or liquidity risk than other fixed income sectors
- Legal rights that can take precedence over common or preferred stock if the issuer is liquidated.

## THE HIGH YIELD BOND SECTOR

High yield bonds can be issued by U.S. and foreign corporations, governments and other organizations. The high yield bond sector represents a significant portion of the overall fixed income market. In the corporate bond sector alone, over \$200 billion in high yield debt was issued in 2010. Like many other bonds, high yield bonds pay interest over time and principal at the maturity or call date—and can be traded in the secondary market.

## HIGH YIELD BOND CREDIT RATINGS

Credit rating agencies such as Moody’s, Standard & Poor’s and Fitch use quantitative tools and qualitative judgments to evaluate the creditworthiness of an issuer. They assign credit ratings to issuers through a grading system like that shown below. While the rating systems shown below is the Standard & Poor’s rating system, the other agencies use similar systems.

### Standard & Poor’s Credit Ratings

Investment Grade	
Highest Quality	AAA
High Quality (Very strong)	AA
Upper Medium Grade (Strong)	A
Medium Grade	BBB
Not Investment Grade	
Lower Medium Grade (Somewhat speculative)	BB
Low Grade (Speculative)	B
Poor Quality (May default)	CCC
Most Speculative	CC
No Interest Being Paid or Bankruptcy Petition Filed	C
In Default	D

For more information on Standard & Poor’s Credit Ratings, visit [www.standardandpoors.com/ratings/definitions-and-faqs/en/us](http://www.standardandpoors.com/ratings/definitions-and-faqs/en/us).

## RISKS OF HIGH YIELD BOND INVESTING

As with other bonds, high yield bond prices may decline if interest rates rise, the issuer's financial condition worsens, or other changes occur—resulting in potential loss of principal. In addition, high yield bond investors may face the following risks:

- **Credit Risk:** Potential for loss from financial challenges at the issuing organization, including:
  - **Downgrade Risk** - A bond's price may decline if the credit rating on the bond (and issuing organization) is lowered.
  - **Default Risk** - A bond may default if the issuer does not pay the interest and principal as required.
- **Liquidity Risk** - An investor may have difficulty locating a buyer at certain times, as high yield bonds can sometimes be less liquid than investment-grade bonds.

## MINIMIZING RISK OF HIGH YIELD BOND INVESTING

While seeking the potential for higher income with high yield bond investments, it is important for most investors to minimize risk. Several strategies are available, including:

- Diversifying across high yield bond issuers, industries and sectors
- Monitoring any credit agency ratings changes (or credit watch lists) and industry or company news regarding the bonds held
- Adjusting portfolio holdings as economic and market conditions change

Institutional and individual investors can invest in the high yield bond asset class through the purchase of individual high yield bonds as well as mutual funds, exchange-traded funds and other investment vehicles that can provide diversification for this asset class.

## FOR MORE INFORMATION

Your Janney Financial Advisor can provide you with more information on high yield bond investments and help you determine if they are appropriate to include in your portfolio.

*Investors should conduct a thorough review of a high yield bond prior to investing. Such a review should cover: (1) analysis of the industry or sector, including growth rates, special risks and industry leaders; (2) analysis of the bond issuer and/or the company's position in its industry; new products; management stability; the outlook for growth in revenue and cash flow as captured in Earnings Before Interest, Taxes Depreciation and Amortization, also called EBITDA; value of corporate assets and the debt maturity schedule; and (3) analysis of the issue, including special provisions in the "bond indenture," covenants protecting the bondholder, use of the money raised in the bond offerings, debt seniority, secondary market liquidity and call provisions.*

*High yield bonds are subject to the same tax treatment for individuals as investment grade bonds. For advice about your specific situation, consult your personal tax advisor.*