It is generally the case that when one is introducing something of great intrinsic value, there is no need to employ marketing hype. One can just let the item speak for itself. Unfortunately this does not seem to apply to what is, undoubtedly, one of the most important elements of the global economy, and therefore of direct relevance to our collective prosperity and well-being: the bond markets. The bond market has a direct impact on anyone with a stake in the economy, whether as worker, homemaker, pensioner, student or investor. It’s just that in most cases we aren’t aware of this impact. But without a functioning bond market, really important things like hospitals, schools and oil refineries (and other vital things like airports, train stations and factories) wouldn’t get built. And all of us, in the developed world and most of the developing world, depend on these important things to some extent.

Still, we would have no trouble finding anyone who did not quite see bonds in this way. Hence the need for some hype – at least to start with. As we get into the subject, we can start letting bonds speak for themselves. To begin with, though, we’ll spend a little time confirming the importance of the bond market. We’ll then look at why everyone who invests a portion of his or her earnings should be investing some of that in bonds.

Bond or fixed income instruments are associated with arcane technical jargon and a high level of mathematical analysis. But please don’t trouble yourself with this, not because it is not important (it is), but because it is not necessary for what we are trying to achieve: an understanding and familiarity with bonds, such that we can go out and invest in them profitably. For the moment, take my word for it that bonds are straightforward and easy to understand, and proceed.

Let’s get it on!

**BONDS: IMPORTANT FOR YOU**

Here is how I began Chapter 1 of an earlier book I wrote on bonds:
Readers will be familiar with the cursory slot on evening television news programmes, where the newscaster informs viewers where the main stock market index closed that day and where key foreign exchange rates closed at. In the United States most bulletins go one better and also tell us at what yield the Treasury long bond closed at. This is because bond prices are affected directly by economic and political events, and yield levels on certain government bonds are fundamental indicators of the economy. The yield level on the US Treasury long bond reflects the market’s view on US interest rates, inflation, public sector debt and economic growth. Reporting the bond yield level reflects the importance of the bond market to a country’s economy; this is as important as the level of the equity stock market, and more relevant as an indicator of the health and direction of the economy.

What’s all that about? Yields? The Treasury long bond? How is that important to me? Let’s keep it simple. Most people will at some stage of their lives need to borrow money, whether to buy a house, car or television set, pay for university, nursing home fees, and so on. Some people live in a permanent state of debt, rolling over payments on their credit cards. As readers know, when we borrow money we are required to pay it back with interest, this interest being charged at a quoted percentage rate. This interest rate is set in the bond market. So movements in the bond market directly affect our weekly cash flow. It is much more relevant for you and me, as private individuals, to know where the bond market is trading at, and hence where interest rate levels are at, then it is for us to know where the FTSE 100 or any other stock market index closed at.

A simple product

The first lesson to learn is that bonds are very simple to understand. You do not need any higher level of numeracy to understand the bond market than you do to understand the equity market, and in fact intuitively bonds are easier to grasp than equities. They are as simple as a bank savings account. You don’t believe me?

Savings account

When you open a deposit account at a bank, the bank agrees to pay you a rate of interest on your money, and then return your initial amount plus interest to you when you close the account. In some cases the rate of interest might be fixed, and fixed-rate accounts usually run for a fixed term (so you can’t