

Steve Dodge writes on how to achieve a Higher Income

Falling interest rates are great news for borrowers but not for those needing income from their savings. Corporate Bond Unit Trusts could be the answer.

If a major company needs to borrow money they would approach the stockmarket to raise the funds they need by issuing corporate bonds. The stockmarket sets the interest rate that the company will pay, which is fixed at the start of the loan, and depends on the perceived risk of that company not repaying the loan. The higher the perceived risk of default the higher the interest rate companies have to pay.

Corporate Bond investors are effectively lending their money to a company who pay them a rate of interest that will not change.

Because of the credit crunch there is an increased fear that some companies may default on their loan repayments thus the capital value of many corporate bonds has fallen but the interest rate investors receive is the same. Because the capital value is lower this has the effect of increasing the rate of interest new investors receive.

For example Imperial Tobacco's corporate bond is currently yielding 9.01%, Tees and Hartlepool Port Authority 8.25% and BAT 7.92%. (Yield = income)

However the present fall in capital value many fund managers believe has been overdone, after all, can you imagine the three companies above ever going into liquidation? Furthermore as the risk of companies defaulting on loan repayments reduces, (as the credit crunch nears its end,) the capital value of corporate bonds will increase, but the income will stay the same.

It is possible therefore to enjoy current income, payable quarterly in some cases, of over 6% p.a. and enjoy the prospect of good capital growth as recession works its way through the system.

The easiest way to invest is through Unit trusts, where professional fund managers use their expertise to select the right Corporate Bonds and minimise risk. How to find the right Unit Trust, well no surprise there for regular readers, see an IFA.

Remember you can also invest in Corporate Bonds through ISA's and thus both the income and any Capital growth could be completely tax-free.

If you would like more information on Corporate Bonds, or help in choosing the right one for you, e-mail us at [help@impartialadviser.com](mailto:help@impartialadviser.com) and request the information you need. If you know what fund you want you can invest very cheaply through our website, [www.impartialadviser.com](http://www.impartialadviser.com) and click on the link to Fidelity funds network.

This opportunity may not exist in a few months time so don't delay. Please remember that Corporate Bonds are an investment, they can and do rise and fall in value daily but for the first time since the late 80's Corporate Bonds appear very attractive indeed.