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Risks of Investing in Long-Term Bonds and Preferred Securities

With interest rates near historical lows, more investors are considering the purchase of longer term bonds and perpetual preferred securities in order to increase the yield of their investment portfolio. Potential purchasers and current holders of long-term fixed income securities should consider the potential risks of owning these securities in a rising interest rate environment.

Although we cannot predict when rates will rise, we remind you these risks include:

- **Interest rate risk.** When interest rates rise, the price of a fixed income security will fall. The longer the time to maturity, the greater the decline in price. For example, if a 30-year U.S. Treasury bond was issued at par to yield 3% and rates suddenly increased to 4%, its price would fall by 17.4%. A perpetual preferred security issued at par to yield 5% would incur a 16.7% price decline if its market yield increased to 6%.
- **Inflation risk.** Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a fixed income investor's future interest payments and principal. Inflation also leads to higher interest rates, which in turn leads to lower bond and preferred security prices. In the 30-year Treasury bond example above, an initial purchaser would receive a return of principal at maturity with only 41% of its original purchasing power if inflation averages 3% over the 30-year period.

This communication is not intended to be a market call on rising interest rates, nor is it intended to disclose all of the potential risks of investing in fixed income securities. It is intended solely to remind investors of the potential risks of holding long maturity fixed income securities in a rising interest rate environment. Individual risk tolerances, investment objectives and requirements for liquidity vary greatly and should be carefully evaluated when considering any type of investment vehicle.