



A Bond that May Benefit from Rising Rates

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Today's low-rate environment is plaguing fixed-income investors searching for yield amid the fear of rising rates.

Investment-grade floating rate notes, or "floaters" as they are commonly known, are a type of investment that can actually benefit from rising rates. Floaters become more popular when interest rates are expected to increase.

Floaters are a type of corporate bond with set maturity dates and ratings. The coupon sets them apart. Unlike most bonds, the coupon changes over time. It is usually based on a short-term benchmark such as the U.S. Treasury bill rate or the LIBOR rate, plus a quoted spread that remains constant. So, if the Fed continues with three more rate hikes as they have telegraphed, coupons on the floaters should also rise.

As the Fed raises the Federal Funds rate and other short-term rates rise, the coupon "adjusts" higher. Rising rates tend to hurt the market value of regular fixed rate bonds, but because floater coupons can rise with prevailing interest rates, prices tend to be relatively stable. Generally, coupons adjust (and pay) quarterly, which can be attractive to investors seeking regular income.

Compared to fixed-rate debt instruments, floaters protect investors against a rise in interest rates, which have an inverse relationship with bond prices - the market price of a bond will drop if interest rates increase.

If you're worried about rising interest rates and the effect on your fixed income investments, you might want to consider floaters. You can buy floaters individually or through a fund. We generally recommend individual bonds because investors have greater certainty about maturity dates, whereas funds constantly reinvest and don't actually "come due".

About the Author

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Roland Stoever founded Stoever Glass Wealth Management, Inc., in 2014. Prior to joining Stoever Glass & Co., (broker-dealer) in 1991, Mr. Stoever was employed by KVL commodities trading Gold and Crude oil futures on the floor of the New York Mercantile Exchange. Mr. Stoever's extensive career at Stoever Glass has many roles, beginning as a retail financial consultant and evolving to running the firms proprietary trading operations. In the past 25 years of trading an array of financial products he has gained vast experience into the workings of global financial markets, which he now brings to Stoever Glass Wealth Management Inc. Mr. Stoever is a graduate of New York University's Leonard Stern School of Business.

Mr. Stoever holds his General Securities (series 7) Equity Trader (series 57) and Registered Investment Advisor (series 65) licenses.

"Roland will be a unique resource to Stoever Glass' municipal clients. His knowledge in specific issues and areas of the municipal bond industry will aid our representatives and their clients in making educated decisions, in a sector where this type of research is unique," said Fred Stoever of Stoever Glass.



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