Fixed Income Investing

Understanding how fixed income can fit into an investment portfolio.

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Understanding fixed income

Fixed income can be an integral part of any diversified portfolio.

Many investors find it hard to tolerate the fluctuations in their portfolios that come from the ups and downs of the markets, leaving them looking for investments that can help moderate volatility. And while many investors understand the benefits of diversification, the role of fixed income investments, such as bonds, CDs, and some annuities, and how they work, can be confusing.* This discussion guide will primarily focus on bonds.

Bonds are typically recommended, along with stocks and short-term investments, as part of a diversified portfolio.† Bonds are typically less volatile than stocks, and may help investors better tolerate market uncertainty and remain invested for the long term. Bonds may help:

GENERATE INCOME

The interest payments from bonds can help create an income stream that can be reinvested or used to manage cash flow needs. Certain bonds can also provide tax advantages.

DIVERSIFY YOUR PORTFOLIO

Higher-credit quality bonds are often less volatile and typically act conversely to stocks in the market. They can help provide diversification and lower portfolio volatility.

LIMIT RISK TO CAPITAL

Potential repayment of the original investment in a bond can help investors who are concerned about protecting capital to meet financial needs with greater certainty.

*In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation, credit, and default risks for both issuers and counterparties. Any fixed income security sold or redeemed prior to maturity may be subject to loss.

†Diversification does not ensure a profit or guarantee against loss.

Navigating the bond markets

Investing in today's vast bond marketplace can be tricky.

The bond market is considerably more complicated than the stock market. It's very large and fragmented, with thousands of entities issuing millions of bonds, which represent trillions of dollars in the market. Additionally, unlike stocks, bonds do not trade on an organized exchange. This can require additional effort from an investor to assess the value of an individual bond. Choosing from different issuers, yields, durations, and risk profiles can be overwhelming for investors.

The bond market is vast in terms of the dollar value, type of available bonds, and number of issuers.

	U.S. TREASURIES	CORPORATES	MUNICIPALS
Market Size There are trillions of dollars in bonds across a variety of sectors.	$15.6 Trillion	$9.2 Trillion	$3.8 Trillion
Number of Issuers Within each sector there can be thousands of issuers.	One issuer (U.S. GOV)	10,000	50,000
Number of Securities Each issuer can issue multiple bonds and each one has unique properties.	1,000	30,000	1,000,000

Source: Fidelity, Securities Industry and Financial Markets Association (SIFMA), as of December 31, 2018

< 1% To gain a perspective of how big the bond market is, all unique securities in the entire U.S. Equity Market represents less than 1% of the number of bonds outstanding.

Source: SIFMA, FINRA as of December 2018.

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- How familiar are you with bonds?
- With what types of bonds have you had experience?

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation, credit, and default risks for both issuers and counterparties. Any fixed income security sold or redeemed prior to maturity may be subject to loss. The municipal market is volatile and can be significantly affected by adverse tax, legislative, or political changes and the financial condition of the issuers of municipal securities.

How to evaluate bonds

Not all bonds are created equal.

Although some bonds have similar features, such as a fixed payment rate and maturity date, they are not all equal in terms of income potential and risk. Two important bond measurements—credit quality and duration—can provide a good indication of the income an investor might receive and the risk being taken on to pursue that income.

Credit Quality[1]

A bond's credit quality indicates the likelihood that its issuer will default on paying interest owed and repaying principal at maturity. Bonds generally fall into one of two credit quality categories:

INVESTMENT-GRADE BONDS	BELOW-INVESTMENT-GRADE BONDS
Have higher credit ratings from major rating agencies (Aaa or AAA to Baa3 or BBB–).*	Have lower credit ratings from major rating agencies (Ba1 or BB+ to C or D).*
Often issued by corporations, developed governments, and municipalities that: • Are established • Have fairly healthy balance sheets • Possess a positive growth outlook	Often issued by corporations, developed/developing governments, and municipalities that: • Are new or have high debt levels • Operate in highly competitive or volatile sectors • Have troubling fundamentals

LOWER ← DEFAULT RISK & INCOME POTENTIAL → HIGHER

Duration[2]

In general, as interest rates rise, existing bond prices usually fall, and vice versa. But these changes do not affect all bonds equally. Duration measures a bond's price sensitivity to changes in interest rates. It is influenced greatly by the length of time until the bond's maturity, and also the way the bond pays interest throughout its life. Bonds generally fall into one of three duration categories:

SHORT-TERM BONDS	INTERMEDIATE-TERM BONDS	LONG-TERM BONDS
duration: 1–3.49 years	duration: 3.5–6 years	duration: 6+ years

LOWER ← INTEREST RATE SENSITIVITY & INCOME POTENTIAL → HIGHER

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- How comfortable are you evaluating the risks in your portfolio?
- What additional resources about bonds might be helpful?

*Each agency has its own rating hierarchy, creating differences in ratings scale shown for each credit quality category.

Bonds in a rising interest rate environment

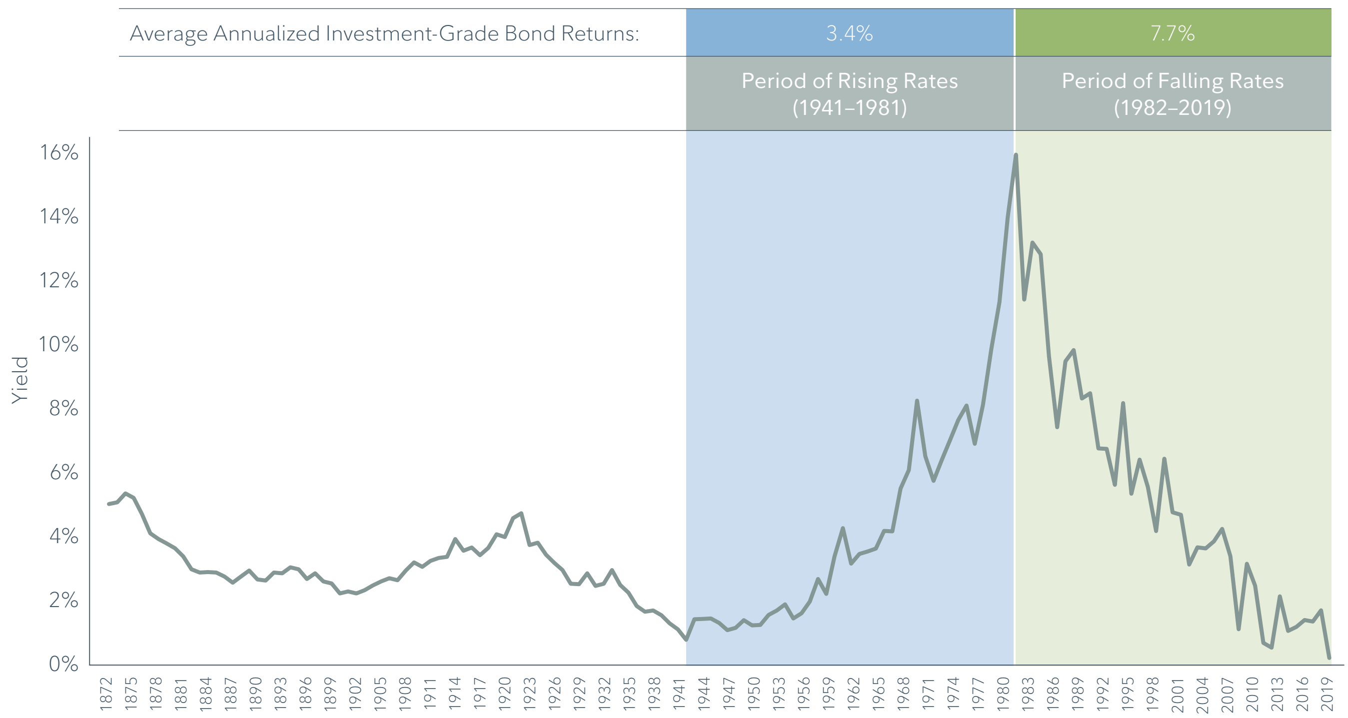
Even if rates rise, bonds can be an important part of an investor's plan.

Over the last few decades, a general decline of interest rates provided a positive backdrop for bonds. As a result, the common perception among many investors is that in the reverse scenario—a world of rising rates—bonds are not worth owning.

However, bonds may help generate income and may help limit portfolio volatility—even during periods of rising interest rates. And rising rates will not affect all bonds equally. It is important to understand the variety of bond types, and what kind of return each may provide in different types of market environments.

Even when rates rise, bond returns can be resilient

Rates are represented by 10-year U.S. Treasury yields.



Past performance is no guarantee of future results. Investment-grade bond total returns are represented by indexes from Bloomberg Barclays. Fidelity Investments proprietary analysis of historical asset class performance is not indicative of future performance. Sources: U.S. Treasury, Barclays, Bloomberg Finance L.P., Fidelity Investments (AART), and Strategic Advisers, as of 8/31/2019. U.S. Treasury data reflects year-end closing daily yield from 1873 to present except for current year to date period as noted. U.S. Treasury data from 1873–1961 is sourced from Fidelity Investments (AART).

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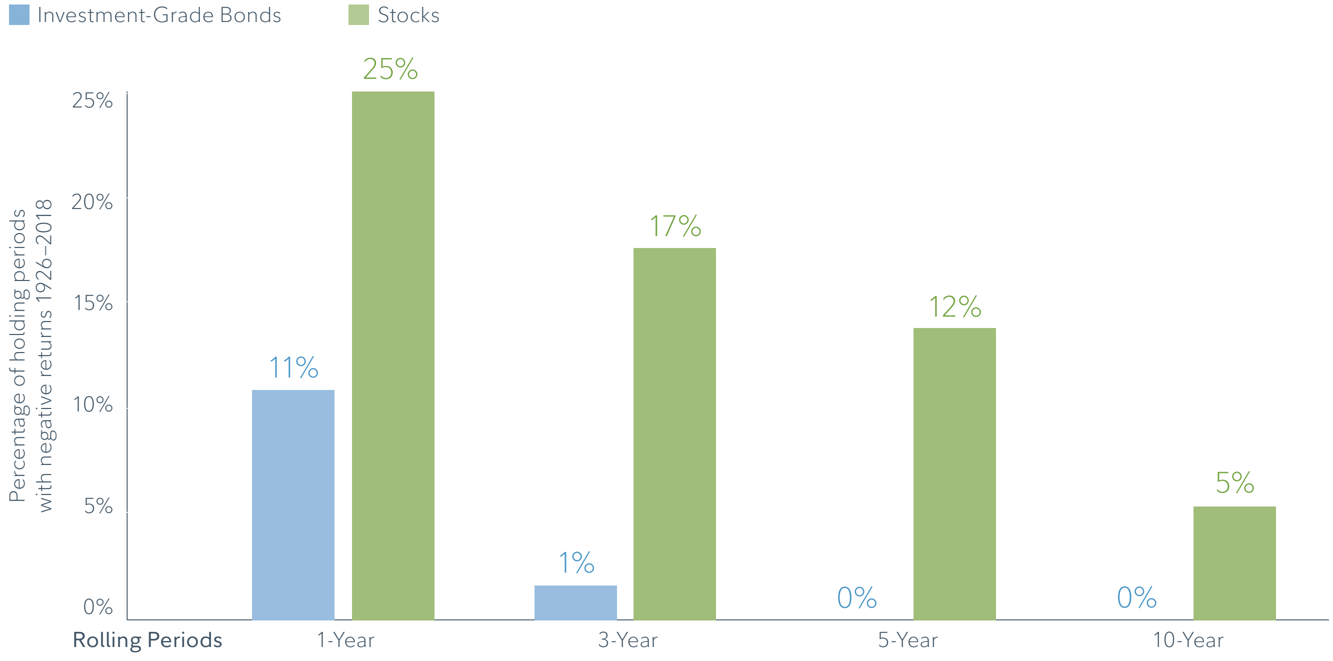
- What experience do you have with how fluctuating interest rates can affect your portfolio?
- Are you concerned about the impact of changing interest rates on your investment returns?

Volatility and downside protection

Bonds have historically seen fewer periods of negative returns than stocks and may provide diversification.

Bonds are generally less sensitive than stocks when it comes to ups and downs in the market. That's one of the reasons people own bonds—to help provide some protection in periods of market volatility.

If you owned investment-grade bonds for five years or more over any consecutive time period since 1926, you would have had less chance of experiencing negative returns.



Worst Total Returns over Various Holding Periods				
	1-Year	3-Year	5-Year	10-Year
Investment-Grade Bonds	–9%	–1%	0%	1%
Stocks	–68%	–44%	–17%	–5%

Based on rolling monthly holding periods. Past performance is no guarantee of future results. Investment-grade bond and stock returns are represented by indexes from Fidelity Investments, Morningstar, Standard & Poor's, and Bloomberg Barclays. Fidelity Investments proprietary analysis of historical asset class performance is not indicative of future performance. Sources: Fidelity Investments (AART), as of 12/31/2018.

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- How important is stability in your investments?
- What is your level of comfort with volatility?

Fixed income investing at Fidelity

Our comprehensive fixed income offering can help you invest in a way that works for you.

Helping investors navigate today's fixed income market requires vast resources. Fidelity has invested heavily in people and technology, aiming to gain a competitive edge for the benefit of our customers. We have fixed income strategies for all types of investors—and will work with you to make the most of this type of investment.

INDIVIDUAL SECURITIES Bonds and CDs	FIXED INCOME EXCHANGE TRADED FUNDS[4] (ETFs)
A fixed-income investment, such as a bond or CD, that typically provides a return in the form of fixed periodic payments	A portfolio of bonds and other fixed income investments that trade as a single unit throughout the day
Requires purchasing a broad array of bonds to diversify	**Offers the potential for diversification** through a constantly changing portfolio of bonds
Can provide income and/or tax advantages, depending on the type of security	**Can provide income;** amounts will vary depending on underlying holdings of the fund,[4] which are constantly changing
Typically provides return of principal at maturity	**Does not repay** principal on a fixed schedule
Broad selection of more than 40,000 new issue and secondary market bonds and CDs[3]	**Access to a wide range of fixed income ETFs** that include U.S. and international bonds, covering a spectrum of credit qualities and maturities
Exceptional value as we display bond prices as we receive them from dealers and add a bond trading markup of just $1 per bond*	**Intraday pricing and trading** with ongoing transparency of holdings
Research and trade on Fidelity's powerful online platform, or use our Bond Ladder Tool[5] to build a portfolio of bonds	**Research and trade** an expansive offering of active and passive funds on Fidelity's online platform
Minimum Investment: Generally $1,000–$5,000 per bond, depending on the type of bond	Minimum Investment: Varies by fund

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• What factors are most important to your choice of investments?

Control • Customization • Fees • Transparency • Potential tax deductions

***Minimum markup or markdown of $19.95 applies if traded with a Fidelity representative. For U.S. Treasury purchases traded with a Fidelity representative, a flat charge of $19.95 per trade applies. A $250 maximum applies to all trades, reduced to a $50 maximum for bonds maturing in one year or less. Rates are for U.S. dollar–denominated bonds; additional fees and minimums apply for non-dollar bond trades. Other conditions may apply; see Fidelity.com/commissions for details. Please note that markups and markdowns may affect the total cost of the transaction and the total, or "effective," yield of your investment. The offering broker, which may be our affiliate, National Financial Services LLC, may separately mark up or mark down the price of the security and may realize a trading profit or loss on the transaction.**

FIXED INCOME MUTUAL FUNDS	SEPARATELY MANAGED ACCOUNTS (SMAs)
A portfolio of bonds and other fixed income investments that trade at net asset value (NAV)	A professionally managed portfolio of individual bonds, built and managed to an investor's preferences
Can offer broad diversification, though some funds are narrowly focused	**A diversified portfolio** of fixed income securities
Can provide income although amounts will vary depending on underlying holdings of the fund, which are constantly changing	**Can provide income** and/or tax advantages, depending on underlying holdings
Does not repay principal on a fixed schedule	Underlying individual bonds **typically provide return of principal** if held until maturity
Access to a broad range of fund types, allowing investors to select funds that align with their goals and risk tolerance	**A strategy based on your preferences,** with the ability to include existing holdings or exclude certain types of investments
Pricing and trading at end-of-day NAV with periodic transparency of holdings	**Individual ownership of bonds** with transparency into holdings
Research and trade an expansive offering of active and passive funds on Fidelity's online platform	**A dedicated representative** who can provide insights from the portfolio management team and answer questions about account activity
Minimum Investment: Varies by fund	Minimum Investment: $350,000

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- Which solutions best address your needs?

Fidelity Separately Managed Accounts refer to the discretionary investment management services provided through Fidelity Personal and Workplace Advisors LLC (FPWA), a registered investment adviser. **These services are provided for a fee.** Brokerage services provided by Fidelity Brokerage Services LLC (FBS), and custodial and related services provided by National Financial Services LLC (NFS), each a member NYSE and SIPC. FPWA, FPTC, FBS, and NFS are Fidelity Investments companies.

Next steps

Working together with you, we will help you take the following steps to create a plan to help you meet your goals.

1. Identify your personal and financial goals.
   Completed ☐

2. Determine which fixed income option may meet your needs.
   Completed ☐

3. Implement your plan with an appropriate mix of fixed income investments to balance your financial needs.
   Completed ☐

4. Set up regular reviews with your Fidelity investment professional to help you refine your portfolio to help meet your lifestyle and income needs.
   Completed ☐

Please see the back cover for additional important information.

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[1]There are credit rating agencies that analyze the creditworthiness of a company or security and indicate that credit quality by means of a grade, or credit rating. In the United States, major rating agencies include three Nationally Recognized Statistical Rating Organizations (NRSROs): Moody's Investors Service (Moody's), Standard & Poor's Ratings Services (S&P), and Fitch, Inc.

[2]Duration is a measure of a security's price sensitivity to changes in interest rates. Duration differs from maturity in that it considers a security's interest payments in addition to the amount of time until the security reaches maturity, and also takes into account certain maturity-shortening features (e.g., demand features, interest rate resets, and call options) when applicable. Securities with longer durations generally tend to be more sensitive to interest rate changes than securities with shorter durations. A fund with a longer average duration generally can be expected to be more sensitive to interest rate changes than a fund with a shorter average duration.

[3]If you want to buy or sell a CD on the secondary market, Fidelity Brokerage Services LLC ("FBS") will charge you a markup or markdown. This markup/markdown will be applied to your order, and you will be provided the opportunity to review it prior to submission for execution. CDs are made available through our affiliate National Financial Services LLC ("NFS") and from various third-party providers, including participants on the Tradeweb Markets, TMC Bonds, and Knight Capital Group platforms, with FBS normally acting as riskless principal or agent. These offering brokers, including NFS, may separately mark up or mark down the price of the security and may realize a trading profit or loss on the transaction.

[4]**ETFs are subject to market fluctuation and the risks of their underlying investments. ETFs are subject to management fees and other expenses. Unlike mutual funds, ETF shares are bought and sold at market price, which may be higher or lower than their NAV, and are not individually redeemed from the fund. In general, fixed income exchange-traded products (ETPs) carry risks similar to those of bonds, including interest rate risk (as interest rates rise, bond prices usually fall, and vice versa), credit and default risks for both issuers and counterparties, inflation risk, and call risk. Unlike individual bonds, many fixed income ETPs do not have a maturity date, so a strategy of holding a fixed income security until maturity to try to avoid losses associated with bond price volatility is not possible with those types of ETPs. Certain fixed income ETPs may invest in lower quality debt securities that involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.**

[5]A bond ladder, depending on the types and amount of securities within it, may not ensure adequate diversification of your investment portfolio. While diversification does not ensure a profit or guarantee against loss, a lack of diversification may result in heightened volatility of your portfolio value. You must perform your own evaluation as to whether a bond ladder and the securities held within it are consistent with your investment objectives, risk tolerance, and financial circumstances. To learn more about diversification and its effects on your portfolio, contact a representative.

In general the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation, credit, and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets. Lower-quality bonds can be more volatile and have greater risk of default than higher-quality bonds. The municipal market is volatile and can be significantly affected by adverse tax, legislative, or political changes and the financial condition of the issuers of municipal securities.

Indexes are unmanaged. It is not possible to invest directly in an index.

Index performance includes the reinvestment of dividends and interest income. Securities indices are not subject to fees and expenses typically associated with managed accounts or investment funds. An investment cannot be made in an index.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based, market value–weighted benchmark that measures the performance of the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Morningstar U.S. Market Index is a rule-based, float-weighted index that tracks the performance of the U.S. stock market. The index targets 97% of the market capitalization of the U.S. stock market. The S&P 500® Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

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