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Why choose fixed rate bonds? by Sean Burke

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Investing in bonds can be a risky business, but these risks can be successfully managed and minimised when opting for fixed rate bonds. These savings bonds are offered by banks and financial companies for set terms, during which the customer earns a fixed rate of interest and can rest safe in the knowledge that they will receive all their money back.

The longer the term of your bond, the higher the rate of interest you can benefit from, with bonds typically ranging from six months to five years in duration. As most providers do not permit withdrawals to be made until the end of the term, you will need to carefully consider your financial situation and determine which type of fixed rate bond is best suited to you before applying.

Another aspect to look for when comparing fixed rate bonds is the minimum and maximum amounts of the account, which could put some investment products out of your price range. You should also be aware of the risks when getting involved in any type of investment, though due to their fixed interest rate that will not change throughout the length of your bond's duration, fixed rate savings bonds offer a more secure alternative to variable rate stocks, bonds and shares.

If you're looking for a long term savings option for yourself, a child or someone else you know, fixed rate bonds offer some of the greatest earning potential available, with interest being calculated daily. Some types of fixed rate bonds do permit withdrawals to be made, but these will usually carry a charge and will harm your overall interest rate. If you are likely to make withdrawals from your savings account on a regular basis, an easy access cash ISA could be a preferable alternative.

It's also a good idea to check how often interest will be paid on your fixed rate bond. Choosing to receive interest on a monthly basis will provide you with a more regular stream of income, but the rate for monthly interest is usually lower than that paid for annual interest. As with most types of savings accounts, the interest you earn will also be subject to tax, at a rate depending on your income, and this should be taken into account when comparing rates from different providers. Some providers may pay this interest into separate accounts, and should inform customers if this is the case.

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