

14.6: Bonds Overview (fmr Introduction)

In common parlance, a bond is an affinity between people. In science, that affinity is physically held together by an attraction of atoms. In finance, a bond is a debt agreement, holding lender and borrower together in a shared financial fate.

Investors buy bonds to participate in economic growth as lenders rather than as shareholders, with less risk and a firmer claim on assets. Bonds are issued by different kinds of organizations—by governments and government agencies as well as by corporations—giving investors different kinds of partners in growth.

Since bonds are a different form of capital than stocks, and since bond investments are made in different kinds of borrowers, bonds offer diversification from the stocks in your portfolio. Your use of bonds may change over time, as your risk tolerance or liquidity needs change.

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