Abstract: Stock market and interest rate uncertainty may cause some investors to turn to bonds. This brief article discusses several popular options, including U.S. government savings bonds and corporate bonds.

Appreciating the helpful balance of bonds

Stock market and interest rate uncertainty may cause some investors to turn to bonds. Perhaps the most "user friendly" bond is a U.S. government savings bond. Buying one means you're essentially lending the federal government money under certain terms, in exchange for a future return. U.S. savings bonds don't offer as high a yield as other investment instruments, but they're highly stable. The amount earned on U.S. government bonds is taxable on federal income tax returns when they're redeemed, but it's often exempt on state and local returns. However, you can make a one-time election to report the interest on these bonds each year as it accrues if this is more beneficial.

Another government investment option is a Treasury bill. These are short-term government securities with maturities ranging from a few days to 52 weeks. For a more long-term option, investigate Treasury notes. These government securities are generally issued with maturities of two, three, five, seven and 10 years and pay interest every six months.

If you're looking to preserve capital while generating some tax-free income, consider a tax-exempt state or municipal bond. Here, you lend money to a more localized government entity in exchange for regular payments. Keep in mind that interest may be taxable on state and local returns.

Corporate bonds are another option. These generally offer a higher yield than their federal or municipal counterparts but come with a greater risk in terms of price fluctuation as markets change and sometimes, issuers default. There are also tax implications, in that interest from corporate bonds is subject to federal, state and local income tax. Plus, as with other types of bonds, you could incur capital gains if you sell the bond at a profit before it matures.