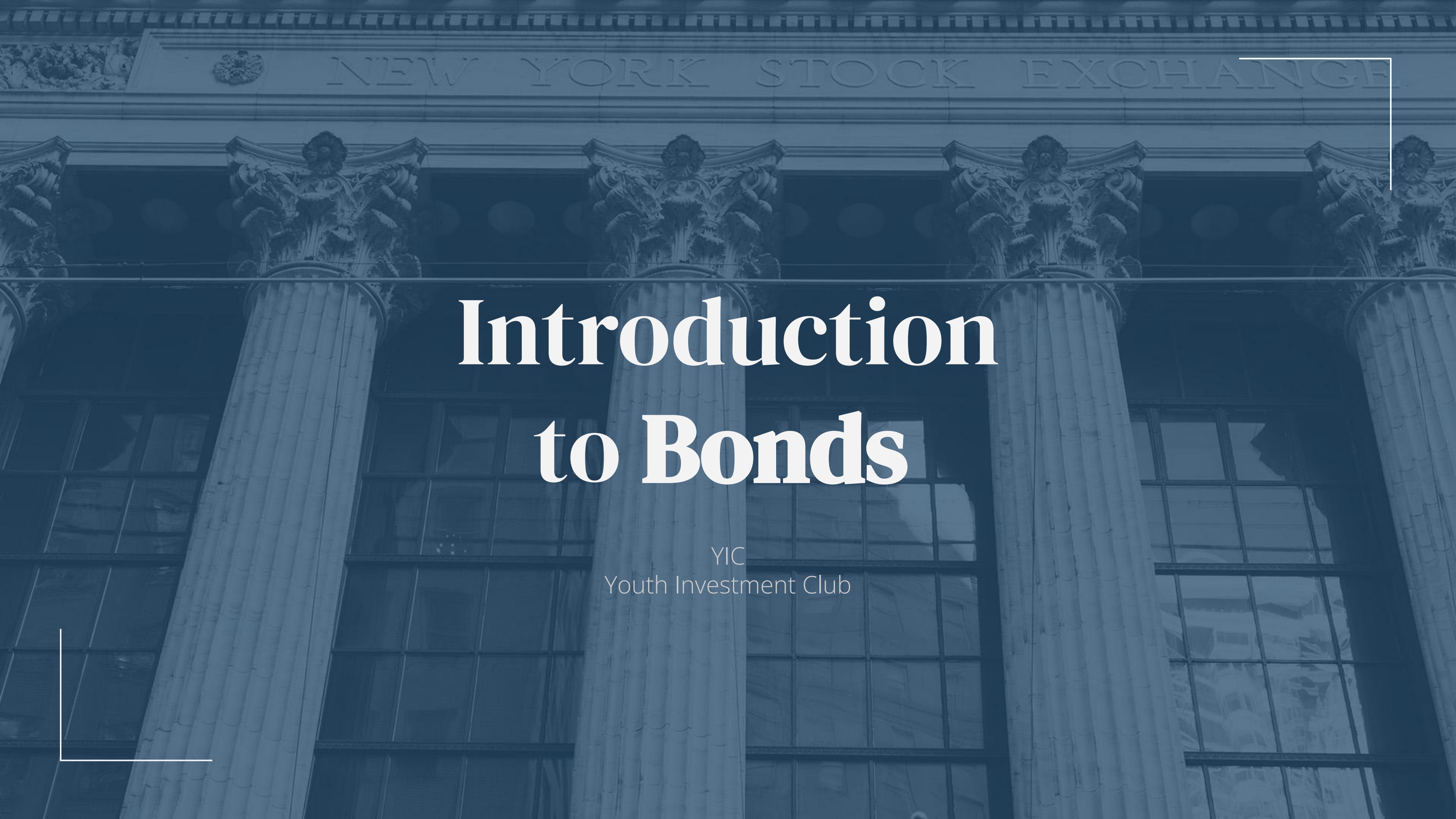

Introduction to Bonds

YIC
Youth Investment Club

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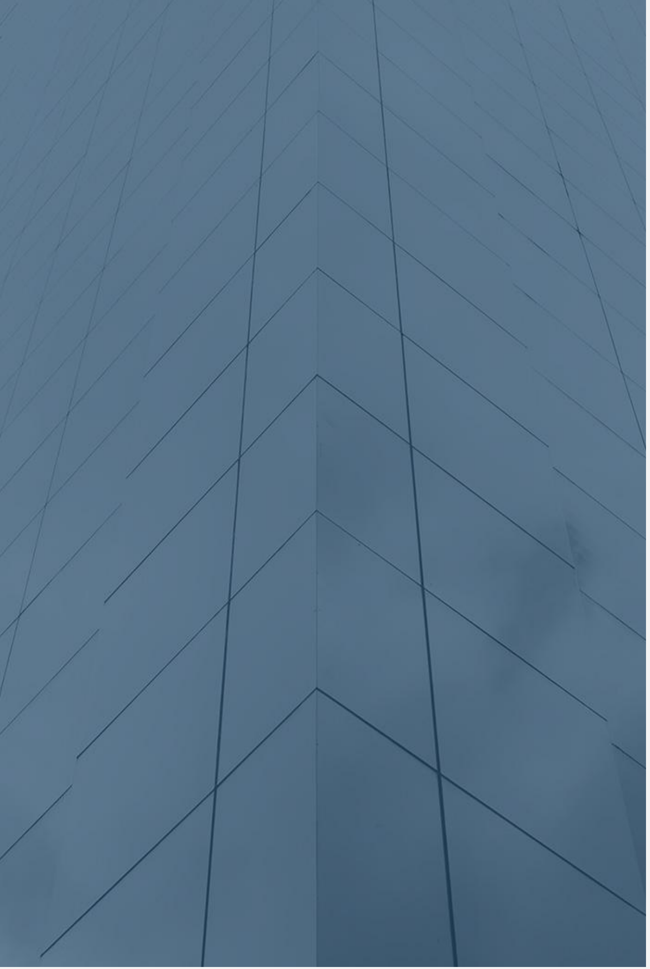
What are Bonds?



Key Terms

Face Value (Principal): Amount repaid at maturity

Coupon Rate: Fixed interest paid to investors

Maturity Date/ Term: When bond principal is repaid

Yield: Effective return on the bond (depends on price)

Interest : Explicit or Implicit profit

Serial : Periodic bond repayments (multiple maturity dates)

General Types of Bonds

Corporate Bonds : Issued by companies (higher risk/return)

Government Bonds : U.S. Treasuries, municipals (low risk, lower return)

Municipal Bonds : Local/state projects, often tax advantages

Junk / High Yield Bonds : Riskier issuers, higher potential return

Technical Types of Bonds

Secured Bonds :

- Firm/ institution offers **collateral** (usually capital).
- Less risky = Lower Interest Rates

Callable Bonds :

- Bond can be called back whenever the firm wants by paying back the principal + interest.

Registered / Bearer Bond :

- Specific person's name to a bond or not.

Unsecured Bonds :

- No **collateral**
- More Risky = Higher Interest Rates
- Usually " Junk" Bonds

Convertible Bonds :

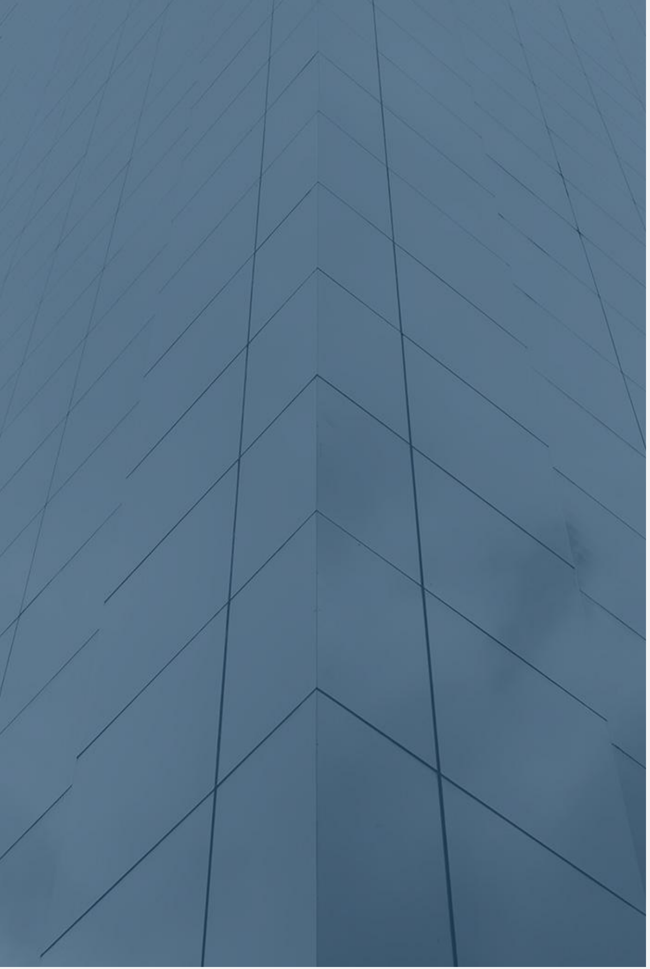
- 100$ bond → 15 shares of stock

Zero- Interest Bonds :

- No periodic payments
- " I pay 600$ today and get 700$ next year"
- Deep discounted bond

Commodities/ Backed Bonds :

- Can be repaid through **commodities**.



Risks of Bonds

Interest Rate Risk: Bond prices fall when rates rise

Credit Risk: Issuer may default on payments

Inflation Risk: Reduces real value of bond income

Liquidity Risk: Harder to sell some bonds quickly

Yield

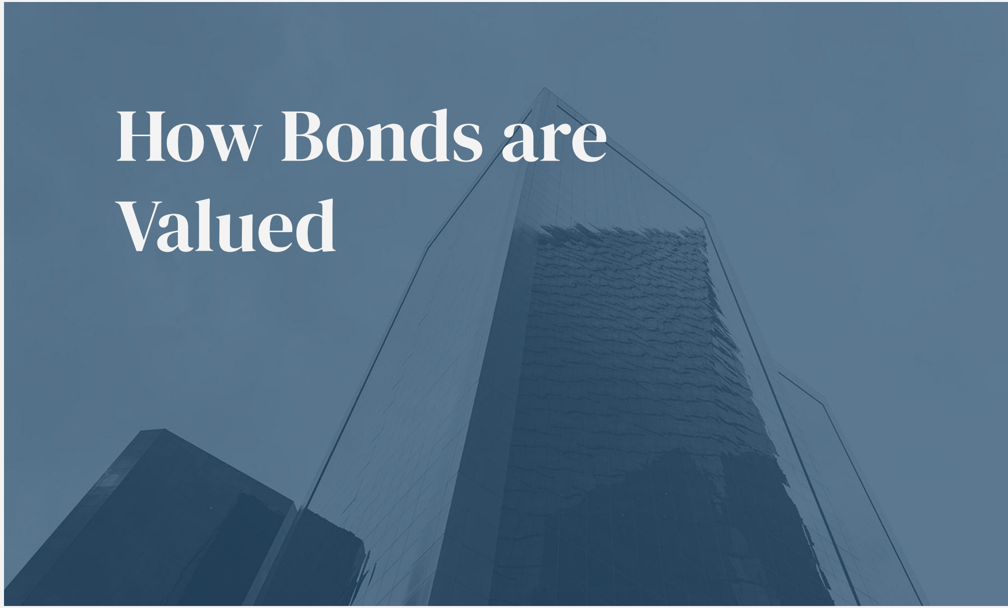
- Yield = **Return on a bond investment**
- Expressed as a **percentage**
- It shows how much income you earn compared to the bond's current price
- **YTM (** Yield to Maturity) Calculates the yield of the bond across the bond's term until its maturity.
- " Real" **Interest**

Current Yield=Market Price/Annual Coupon Payment

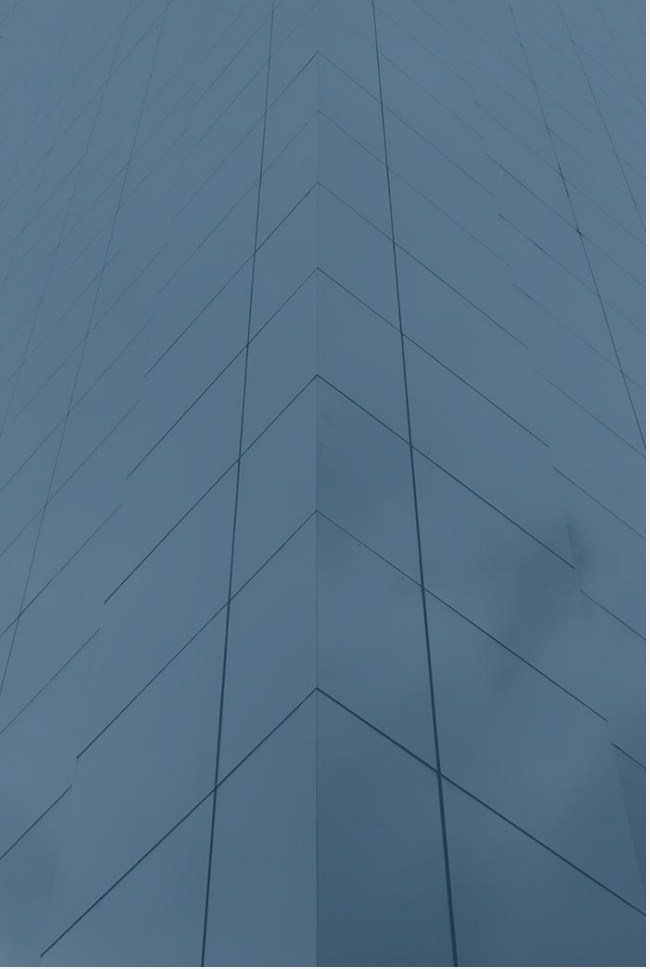
Example:

- $1,000 bond, 5% coupon = $50 annual payment
- If bond trades at $950 → Yield = $50 ÷ $950 = **5.26%**

How Bonds are Valued



- Prices move **inversely** to interest rates
- Bond Yield = Annual Coupon ÷ Market Price
- Higher yield = higher perceived risk



Relevance

Essentially, Bonds are financial instruments that enable investors to diversify their portfolios to serve as a buffer against volatile markets, hence helping maximize profits.

It's important to maintain a diversified portfolio as an investor because this way, if for example, the value of your investments in gold decreases you still have other assets that protect your overall portfolio from defaulting.

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Thank You