Section 2: Bonds

Slide 1:
1. One way a company can raise money is through bonds
2. Bond is an IOU, or a promise to pay .
3. Bonds can be issued by companies, governments, or government agencies
4. Issuer of a bond is a borrower.
5. The person who buys the bond is a lender

Slide 2:
Three major components of a bond
1. Face (par) value
2. Maturity rate
3. Coupon rate

Slide 3:
1. Face or par value is the total amount the issuer of the bond will repay to the buyer of the bond
2. For example: Hunter buys a bond from company Z. Face value of the bond is 10,000 dollars.
3. Company Z promises to pay hunter 10000 dollars at a date in the future
4. Maturity date is the day when the issuer of the bond must pay the buyer of the bond face value for the bond.

For example: Bond becomes mature December 10th, 2013.

Slide 4:
1. Coupon rate is the percentage of the face value that the bond holder receives each year until the bond matures.
2. For example: Hunter buys a bond with a face value of 10,000 that matures in five years and has a coupon rate of 10%.
3. He receives a coupon payment of 1,000 each year for five years

Slide 5:
1. Bonds are rated and evaluated.
2. If a company is more likely to pay back the bond at maturity and will meet all the scheduled coupon payments, it will have a higher bond rating.
3. Two of the best known ratings are Standard and Poor's and Moody's.
4. A bond rating of AAA from Standard and Poor's or a Aaa from Moody's is the highest rating possible.
5. Bond issuer is almost certain to pay the bond at maturity and meet the coupon payments

Slide 6:
1. Bonds rated in the B to D category are lower quality bonds than those rated in the Aa

category
2. Bonds rated in the C category could default (issuer cannot pay off the bond), and if its rated in the D category it is already in default.

Slide 7:
1. Price a person pays for a bond depends on the market conditions
2. Greater the demand for the bond relative to the supply, higher the price
3. Lower the demand for the bond relative to the supply, lower the price

Slide 8:
1. Yield = Annual coupon payment / price paid for the bond
2. Higher yield is better.

Slide 9:
1. Corporate bonds: bonds issued by private corporations
2. Interest that corporate bonds pay is fully taxable

Slide 10:
1. Municipal bonds: issued by state and local governments
2. States issue bonds to help pay for new highways
3. Local governments may issue bonds to finance a civic auditorium or a sports stadium.
4. Many people purchase municipal bonds because the interest paid on the bonds is not subject to federal taxes

Slide 11:
1. Treasury Bills, notes and bonds
2. When the federal government wants to borrow money they can issue Treasury Bills (T-Bills), notes, or bonds.
3. Difference between the three is the time it takes for maturity
4. All of them are bonds
5. Treasury bills mature in 12 ,26, or 52 weeks
6. Treasury notes: 2 to 10 years
7. Treasury Bonds 10 - 30 years
8. These bonds are considered safe investments because it is unlikely the federal government will default.

Slide 12:
1. Inflation indexed treasury bond guarantees the purchaser a certain real rate of return
2. Example: You buy a 10 year bond at 1,000 dollars with a 4% rate of return.
3. Inflation rate is 3%. Government will mark up the value of the bond by 3%.
4. From 1000 to 1030, then it pays 4% on the higher dollar amount.
5. Instead of paying 40.00 it pays 41,20.

Slide 13:

- How to read corporate bonds
- First column has three pieces of info

1. Abbreviation of the company issuing the bond
2. next is the coupon rate of the bond
3. last is when the bond matures

- Second column has the current yield. That means if the yield is bought today there will be

Slide 14:

How to read treasury bonds

1. First column: coupon rate of the bond
2. Second column: when the bond matures
3. Third column we learn how much the buyer is willing to pay for the bond (if you sell it)
4. Fourth column indicates how much the seller is asking for the bond
5. Fifth: price of the bond from the previous trading day
6. Finally: yield, which is based on the ask price, is the return a person who buys the bond

Slide 15:

1. Bonds are not as risky investments as stocks
2. Treasury bonds pay a lower yield because there is less risk involved.

Slide 16:

1. Financial markets are important because without them businesses would have to save up their own money to begin a business, buy new equipment, or expand.
2. Financial market gives them a place to get money.