

# BONDS

## Essential Facts at a Glance

### WHAT IS A BOND?

A bond is a loan to a government or company.  
Issuer means borrower.



### KEY TERMS



### ONE EXAMPLE

A 5-year bond with a 4% fixed annual coupon, paid every 6 months.



### FOLLOW THE MONEY

You receive \$20 every 6 months.



10 payments total \$200 interest  
Returned \$1,000 principal  
+ \$200 interest  
= **\$1,200 total received**

**Total received is not profit.**

Assumes all payments; before taxes and fees.

### PRICE AND YIELD

Market rates and existing fixed-rate bond prices generally move in opposite directions.



Current yield = yearly interest divided by current market price.

If that bond later trades at \$800:

$$\frac{\$40}{\$800} = 5\%$$

**Current yield is not total return.**

Fixed coupon remains 4%.

### KNOW THE RISKS



**Before you decide:** Who owes the money? When are payments due?

Can repayment happen early?

What are the costs and tax rules?

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