

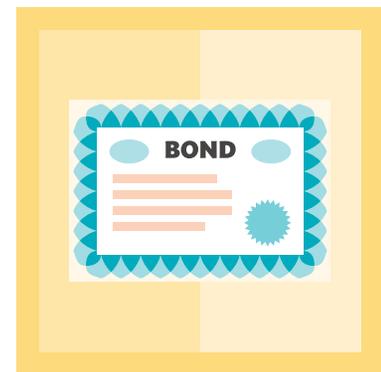
Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 6

Save and Invest—Bonds



Instructional Objectives

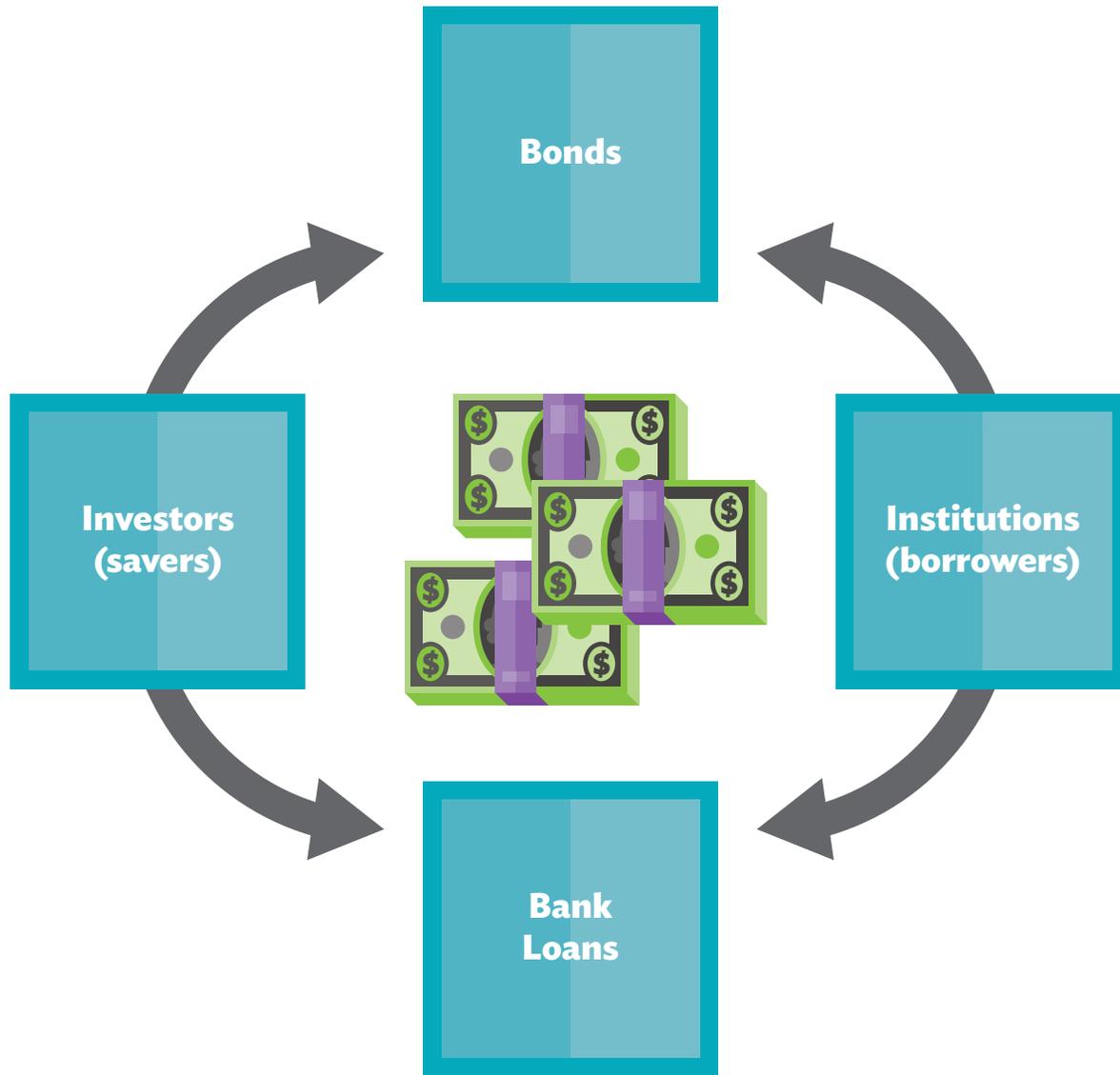
Students will:

- Identify a bond as a financial asset representing a loan to a corporation, municipality or government
- Describe the components of a bond.
- Analyze the impact of bond ownership on a balance sheet.
- Identify factors that influence a bond's market price.
- Explain the relationship between a bond's price and its current yield.



Bonds are...

How to Borrow Money



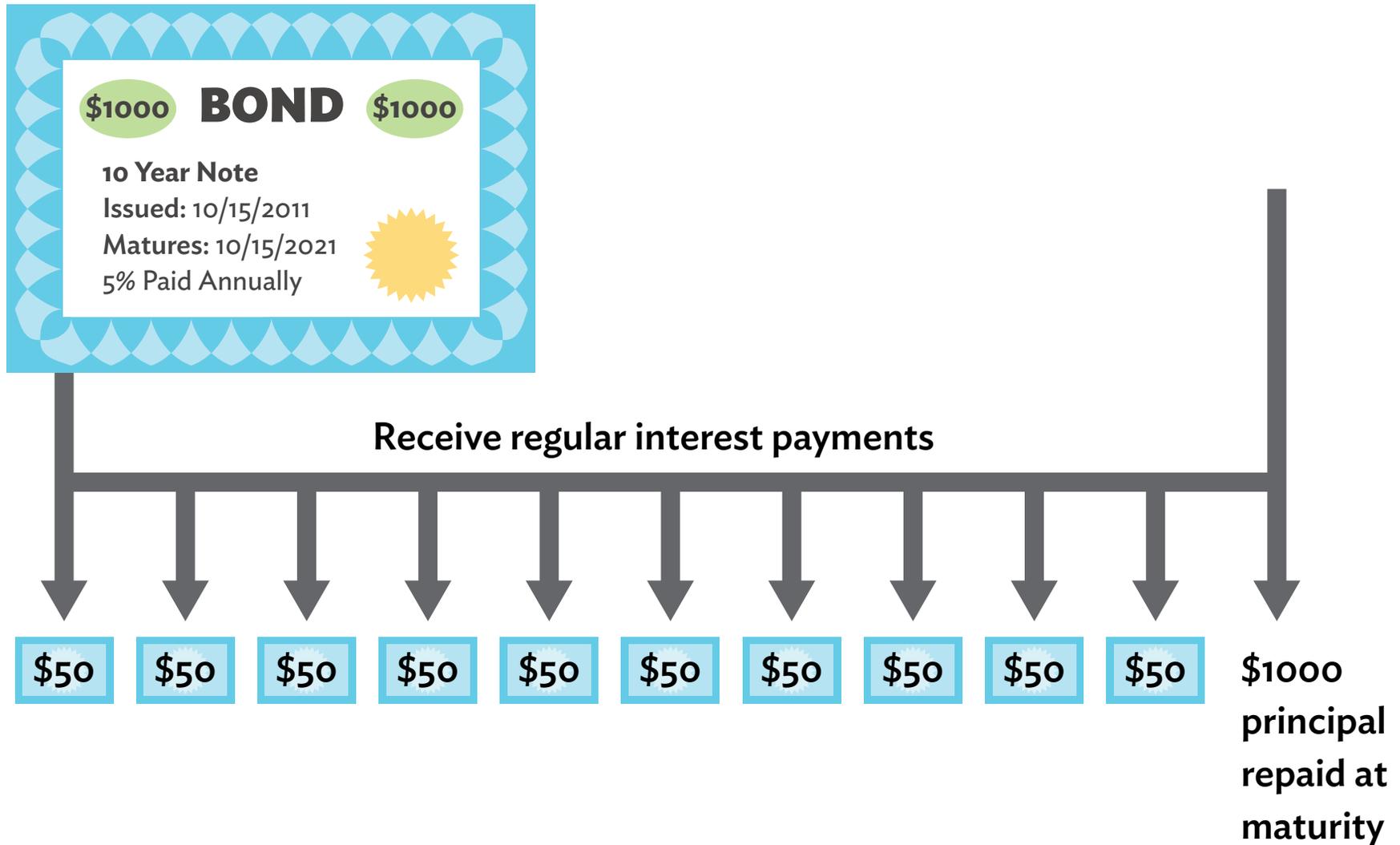
Major Bond Issuers



Parts of a Bond



The Life of a Bond



Wealth-Building Assets



Buying a Bond

Primary Market

Sellers are the original issuers of the bonds.

Buyers are investors (savers).

Secondary Market

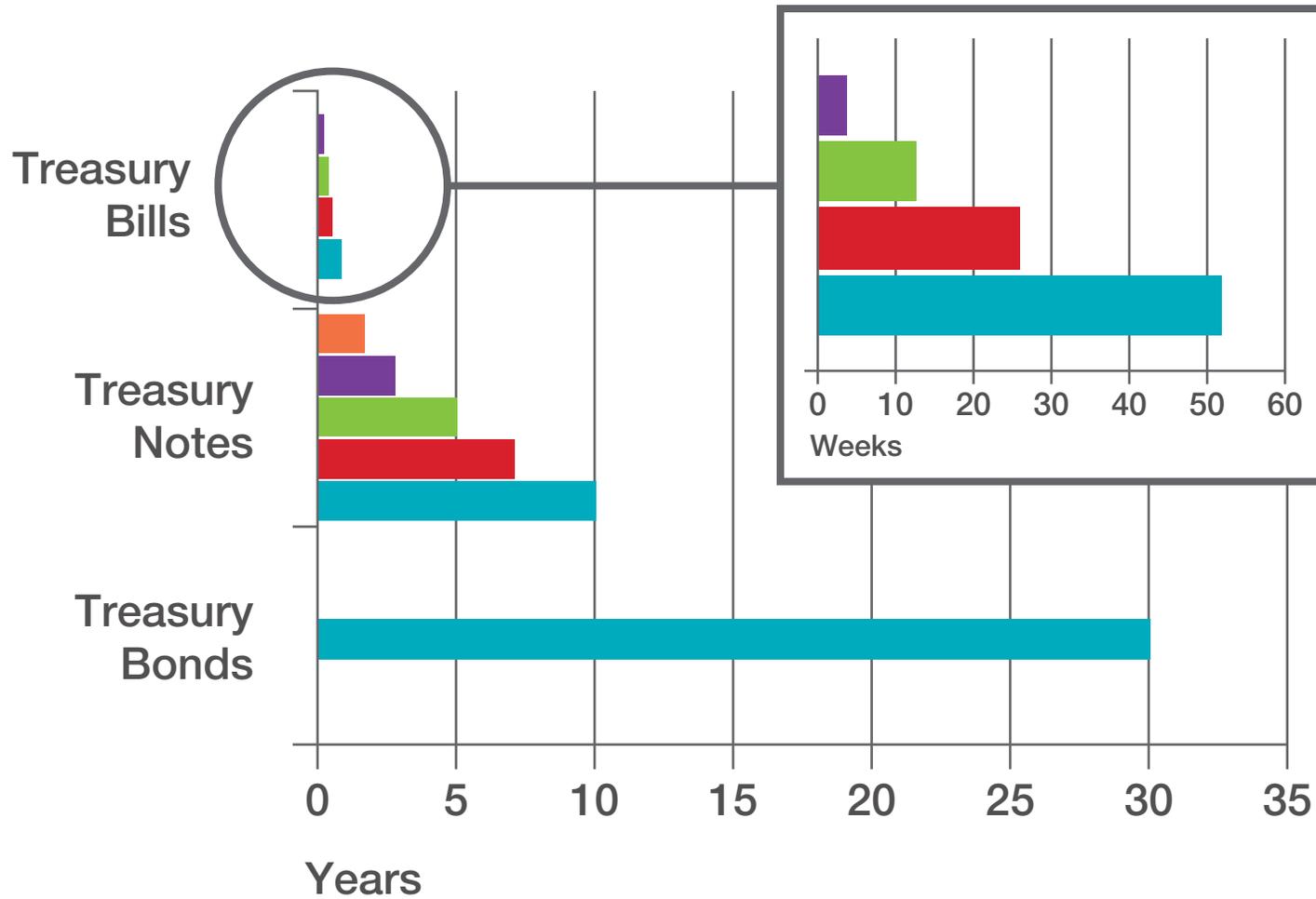
Sellers are individuals or institutions that own bonds.

Buyers are investors (savers).

Questions Bond Buyers Ask

- **When does the bond mature?**
- **How risky is the loan?**
- **How does the interest from this bond compare to other bonds?**
- **Is the income from the bond taxable?**

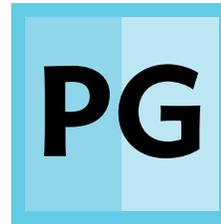
Bond Maturities



A Familiar Rating System



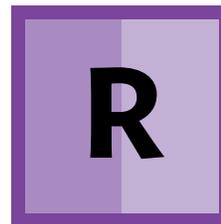
**General
Audiences**



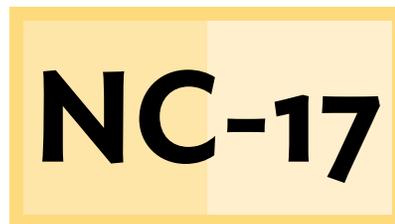
**Parental
Guidance
Suggested**



**Parents
Strongly
Cautioned**



Restricted



**No One 17
And Under
Admitted**

Bond Ratings



Comparing Interest Rates



\$1000 BOND \$1000

10 Year Note
3% Paid Annually



\$1000 BOND \$1000

10 Year Note
5% Paid Annually

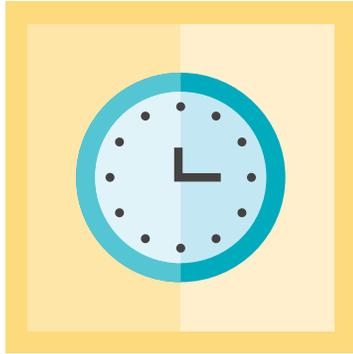


\$1000 BOND \$1000

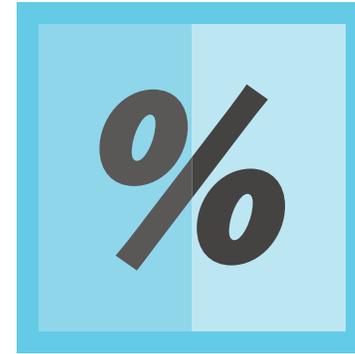
10 Year Note
8% Paid Annually



Factors that Affect Bond Prices



Safety



Interest



**General
Audiences**

Credit quality/rating

Comparing Bond Prices

- When current price = face value, the bond is selling at par value.
- When current price > face value, the bond is selling at a premium.
- When current price < face value, the bond is selling at a discount.

Bond	Face Value	Price
10 year treasury note	\$1000	\$1250
30 year treasury bond	\$1000	\$1000
5 year treasury note	\$1000	\$850

← Premium
← Par
← Discount

Current Yield



- Current yield = coupon payment ÷ current price
- Consider a bond with a face value (par) of \$1,000 and coupon rate of 5%. It has an annual coupon payment of \$50.
 - Purchased at a price of \$800, the current yield is 6.25%
 - Purchased at a price of \$1,200, the current yield is 4.2%

Current Yield in the Secondary Market



Coupon payment ÷ purchase price = current yield.

Assessment