BONDS

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CHARACTERISTICS OF BONDS:

- Principal Amount: The total investment made by a bond holder on the bond.
- Number of Years of Maturity: 1 year, 5 years, 20 years, etc.
- Contract Interest Rate: It refers to returns on the bonds based on the contract, the same is printed on the bond.
- Market Interest Rate: It refers to the interest rate prevailing in the market.
- Interest Payment Schedule: Annual bond, semi annual bond, quarterly bond, or monthly bond.

Bonds vs Stocks

VS

BONDS

- Issues of debt
- Debt that is made with an investor for cash in exchange for payouts of interest
- Typically traded over the counter (OTC)
- Generally lower risk, lower reward
- Since 1929 have earned around 6% each year
- Can be made as corporate, municipal, or treasury bonds

STOCKS

- Issues of a stake of ownership in a company
- A claim to a company's assets and earnings that often gives the investor voting rights and pays dividents
- Typically traded through a central exchange (like NYSE)
- Generally higher risk, higher reward
- Since 1929 have earned around 10% each year
- Are issued by companies at a stock exchange as IPOs

TYPES OF BONDS

Based on Issuers:	Based on Collateral:	Based on Maturity:	Other Types
• Government Bonds, • Corporate Bonds, • Municipal Bonds.	• Secured Bond • Unsecured Bonds	• Zero Coupon Bonds • Perpetual Bonds, • Deferred Bonds • Callable Bonds • Puttable Bonds	• Convertible Bonds • Foreign Exchange Bonds • Inflation Indexed Bonds • Junk Bonds

BASED ON ISSUERS:

Government Bonds: These bonds are issued by national governments to finance their operations or projects. They are generally considered low-risk investments because they are backed by the government's ability to tax or print money. Examples include U.S. Treasury bonds, UK gilts, and German bunds.

Corporate Bonds: These bonds are issued by corporations to raise capital for business operations, expansions, or acquisitions. They offer higher yields compared to government bonds but also carry higher risks. The creditworthiness of the issuing company plays a significant role in determining the bond's risk and yield.

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BASED ON COLLATERAL:

Secured Bonds

- A secured bond, also known as a mortgage bond or asset-backed bond, is a type of bond that is backed by specific assets or collateral. These bonds offer investors an added layer of protection in the event of default by the issuer.
- In a secured bond, the issuer pledges specific assets as collateral to secure the bond. These assets can include real estate, equipment, inventory, or other tangible assets that have value. The issuer grants a security interest or lien on the assets, which means that if the issuer defaults on the bond payments, the bondholders have a claim on the collateral to recover their investment.

Unsecured Bonds

- An unsecured bond, also known as a debenture or a non-secured bond, is a type of bond that is not backed by specific collateral or assets. Unlike secured bonds, unsecured bonds rely solely on the creditworthiness and ability of the issuer to make the promised payments, including principal and interest, to bondholders.
- In the case of unsecured bonds, investors do not have a claim on specific assets of the issuer in the event of default. Instead, bondholders have a general claim on the issuer's assets and earnings. If the issuer defaults, bondholders become general creditors and may have to wait in line alongside other creditors to recover their investment.

BASED ON MATURITY:

Zero-Coupon Bonds: These bonds do not pay regular interest like traditional bonds. Instead, they are sold at a discount to their face value and provide a lump-sum payment at maturity. The difference between the purchase price and the face value represents the return on investment.

Perpetual Bonds: With perpetual bonds, the agreed-upon period over which interest will be paid is “forever", as perpetual bonds live up to their name and pay interest in perpetuity. In this respect, perpetual bonds function much like dividend paying stocks or certain preferred securities. Just as the owner of the stock receives a dividend payment as long as the stock is held, the perpetual bond owner receives an interest payment as long as the bond is held.

Deferred Bonds: Deferred bonds pay interest only upon maturity. Unlike most bonds, a deferred bond does not make periodic, or ‘coupon,’ payments over its lifetime. Instead, the interest accrues and is paid out when the bond expires or matures.

BASED ON MATURITY:

Callable Bonds

- Callable bonds give the issuer the right to redeem or call back the bonds before the scheduled maturity date. The issuer typically exercises this option when interest rates have declined, allowing them to refinance the debt at a lower cost. When a bond is called, the issuer repays the bondholders the principal amount plus any applicable call premium. Callable bonds often offer higher yields to compensate investors for the risk of potential early redemption.

Puttable Bonds

- Puttable bonds, also known as retractable bonds, grant the bondholder the right to sell the bonds back to the issuer before the maturity date. This option benefits the bondholder in situations where interest rates have risen or if they need liquidity. The put option allows bondholders to receive the principal amount back from the issuer. Puttable bonds may offer lower yields compared to similar non-puttable bonds since the put option provides the bondholder with additional flexibility and downside protection.

OTHER TYPES

Convertible Bonds: Convertible bonds give bondholders the option to convert their bonds into a predetermined number of the issuer's common stock. They offer potential for capital appreciation if the stock price rises, combining features of both debt and equity instruments.

Foreign Bonds: Foreign bonds are issued by foreign governments or corporations in a currency different from that of the investor's country. These bonds can provide opportunities for diversification but also carry currency exchange rate risks.

A junk bond, also known as a high-yield bond, is a type of bond that carries a higher risk of default compared to investment-grade bonds. Junk bonds are issued by companies or entities with lower credit ratings or a higher probability of financial distress.

Inflation Indexed Bonds: Inflation indexed bonds are bonds where the principal or interest is indexed to inflation and retail price index. They are thus designed to cut out the inflation risk of an investment. An inflation indexed bond is a security that guarantees a return higher than the rate of inflation if it is held to maturity. Inflation indexed securities link their capital appreciation or coupon payments, to inflation rates

THANK YOU