

Activity 10

Bond Valuation & Yield-to-Maturity

The purpose of this assignment is to practice bond valuation and yield-to-maturity (YTM) estimation for semi-annual coupon bonds. Use your firm that you have been following throughout the class. Go to www.finra.org to start the process of looking up bond information for your company.

Group:

Section:

Choose a bond from the list on FINRA (make sure that it has both a “last sale price” and “last sale yield” available). From the bonds that have both of these, choose the one that is closest to 10 years away from maturity. Then fill in the table below. Copy it directly. Do not interpret or change anything from the screen to your paper.

Ticker			
Symbol		Maturity (date)	
Coupon (rate)		(S&P) Rating	
Last sale price		Last sale yield	

Now you’re ready to start the real work. First, note that the number you wrote for “coupon” is the annual coupon rate stated as a percentage. Thus, if you wrote 5.5 for the coupon rate, then the annual total coupon paid by the firm is $5.5\% \times \$1,000 = \55 . However, corporate bonds pay coupons semi-annually, so the actual coupon payment that an investor receives is half of that, and they receive it every six months. Based on this information, fill in the values you plug into your calculator in order to calculate the yield-to-maturity in the table below. Be careful: the last sale price is written in as the last sale price in dollars *divided* by 10—you need to multiply back by 10 to get the true price.

N	
PMT	
FV	
PV	
I/Y	
YTM	

Now ask for the required rate of return (I/Y) from your calculator. This is the *semi-annual* yield (because your payments and number of periods are based on semi-annual coupon payments). You need to take this semi-annual yield, convert it into an effective annual rate, and write the result in above.

Finally, compare your estimate to the yield that FINRA reports for “last sale yield”. If they are not within 0.1% of each other, can you think of any potential problem with your calculation? (Here is a hint: make a timeline and be *very* careful about the timing of event).