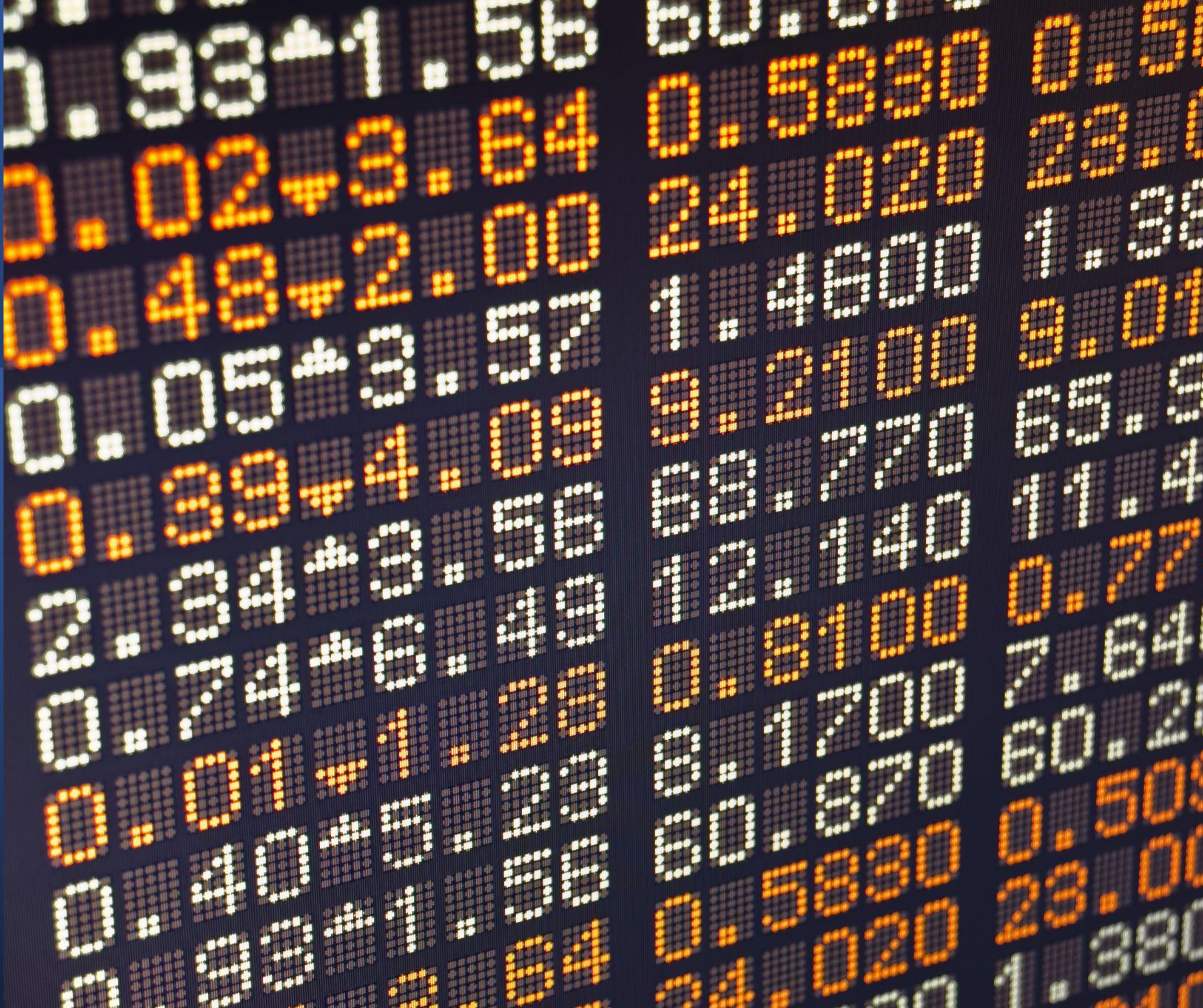
Intermediate Bonds



How Bonds Work

Bonds represent **debt instruments** — the issuer borrows funds and agrees to pay:

A **fixed coupon rate** at regular intervals (monthly, semi-annually, or annually)

The **principal** at a specific maturity date

The **nominal yield** (or coupon rate) is the annual interest expressed as a percentage of the face value.

Important Terms

- **Nominal Yield:** Annual interest rate based on face value.
- **Current Yield:** Annual interest divided by the bond’s current market price.
- **Yield to Maturity (YTM):** The total expected return if held until maturity.
- **Par Value:** The bond’s original or face value repaid at maturity.

Types of Bonds

Fixed-Rate Bonds: Same coupon payment throughout life.

Zero-Coupon Bonds: No regular interest; sold at a discount and pay full value at maturity.

Inflation-Linked Bonds: Adjust returns for inflation.

Callable Bonds: Can be repaid early by the issuer.

Risks

Interest Rate Risk: When rates go up, bond prices fall.

Credit Risk: Default by issuer.

Liquidity Risk: Hard to sell before maturity.

Tax Considerations

Some government or municipal bonds
are **tax-free**, while others may have interest
income taxed at federal or state levels.

Conclusion

Intermediate investors use bonds strategically for portfolio diversification, risk management, and income stability while balancing interest rate sensitivity and credit quality.

Learning Assessment Question 1

What is the “nominal yield” of a bond?

a) The interest rate based on the bond’s face value

b) The price change over time

c) The profit from selling the bond early

d) The amount lost to inflation

Question 2

Which type of bond pays no regular interest?
a) Corporate bond
b) Zero-coupon bond
c) Municipal bond
d) Treasury bond

Question 3

When do companies usually pay interest on bonds?

a) Randomly

b) On predetermined intervals

c) Only at maturity

d) When stock prices rise

Question 4

What happens when interest rates rise?
a) Bond prices rise
b) Bond prices fall
c) Bond prices stay the same
d) Coupons increase automatically

Question 5

Which bond type is often tax-free?

a) Corporate bonds
b) Municipal bonds
c) Foreign bonds
d) Junk bonds