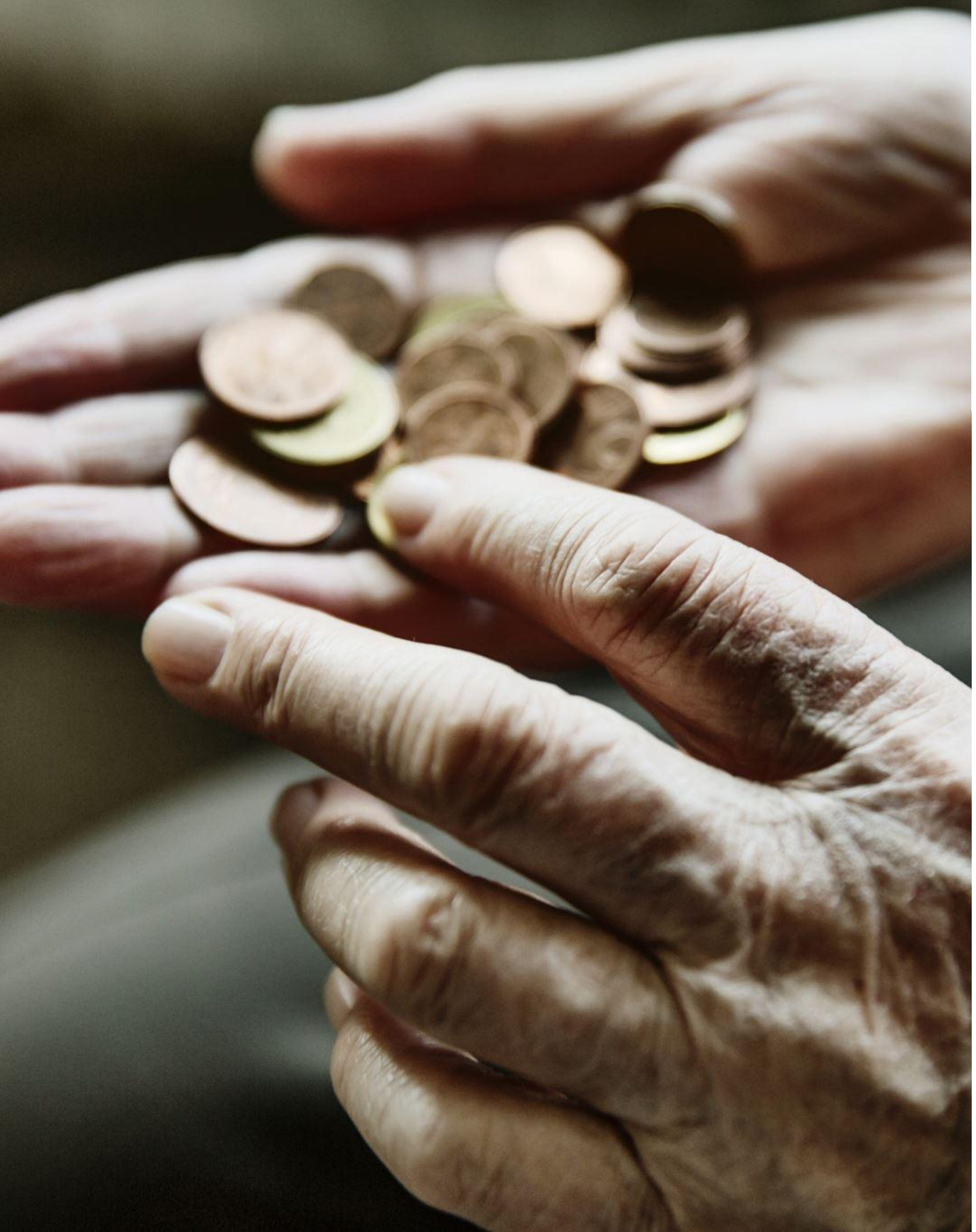
Beginner Bonds



1. What are Bonds?

A **bond** is like a **loan** between an investor and a borrower (usually a government or company). When you buy a bond, you are **lending money** to the issuer. In return, they promise to:

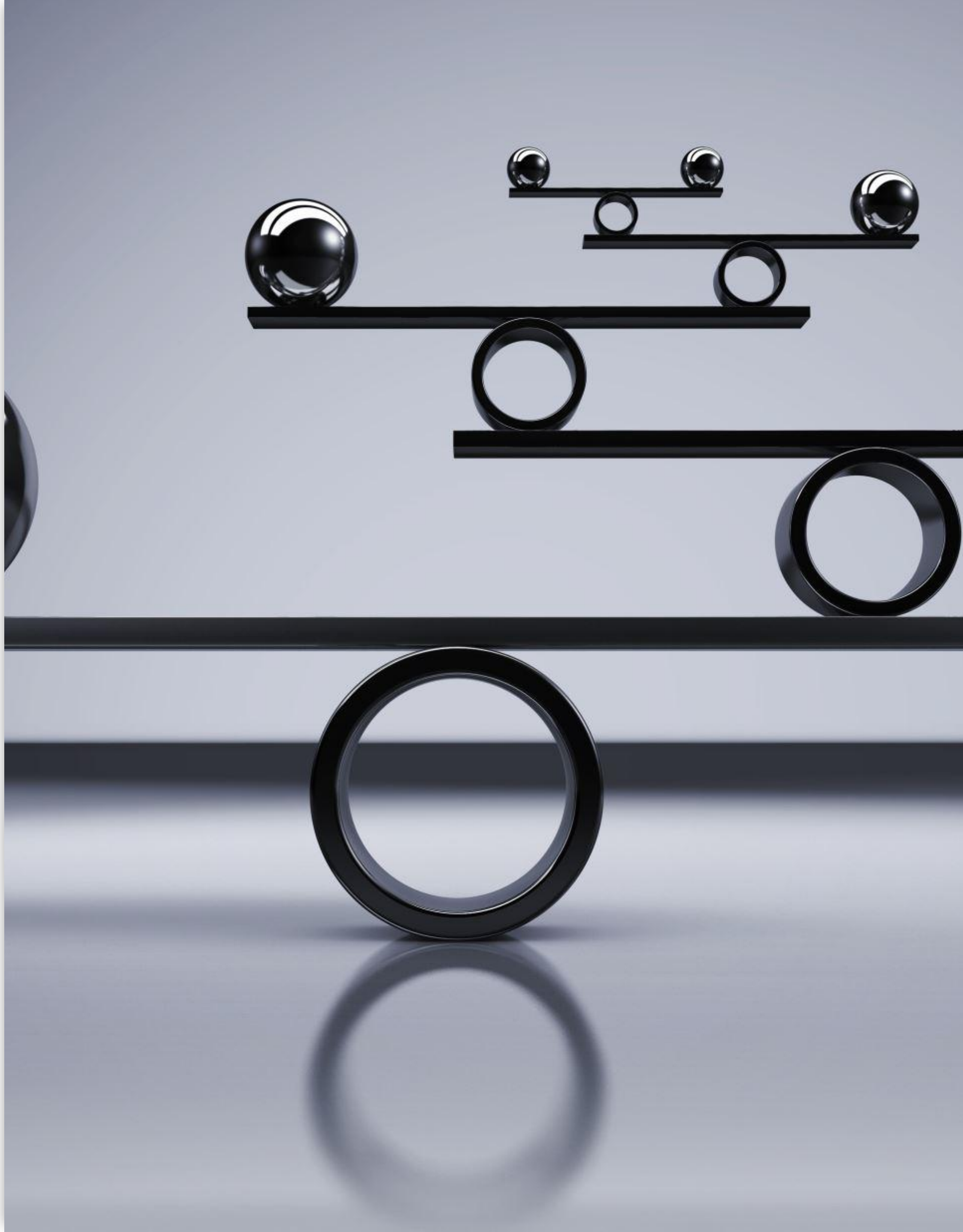
- **Pay you regular interest** (called a coupon)
- **Return your money** (the principal or par value) when the bond reaches maturity

Key Features of Bonds

- **Issuer:** The company or government borrowing the money
- **Face Value (Par Value):** The amount you'll get back at maturity
- **Coupon Rate:** The fixed interest rate the bond pays
- **Maturity Date:** When the bond's face value is repaid
- **Price:** Bonds can be bought or sold on the market before maturity

Why People Invest in Bonds

- Provide **steady income** from interest payments
- Offer **lower risk** compared to stocks
- Used for **diversification** in investment portfolios
- Ideal for **long-term planning** and stability



The Risks of Bonds

01

Even though bonds are safer than stocks, they still have risks:

02

Interest Rate Risk: Bond prices fall when interest rates rise

03

Credit Risk: The issuer might fail to pay back

04

Inflation Risk: Inflation can reduce the real value of returns

Types of Bonds

GOVERNMENT BONDS: ISSUED BY NATIONAL GOVERNMENTS (E.G., U.S. TREASURY BONDS)

CORPORATE BONDS: ISSUED BY COMPANIES TO RAISE CAPITAL

MUNICIPAL BONDS: ISSUED BY LOCAL GOVERNMENTS

ZERO-COUPON BONDS: SOLD AT A DISCOUNT AND PAY THE FULL VALUE ONLY AT MATURITY

Bond Maturity Terms

SHORT-TERM: 1–3 YEARS

MEDIUM-TERM: 4–10 YEARS

LONG-TERM: OVER 10 YEARS

Conclusion

Bonds are a key part of any balanced portfolio. They offer steady returns, predictable income, and lower volatility, making them perfect for cautious or beginner investors who value stability over risk.

Learning Assessment Question 1

What is a bond?

a) A savings account

b) A loan from an investor to a company or government

c) A type of stock

d) A credit card agreement

Question 2

What is the “coupon” on a bond?

a) The price paid to buy the bond

b) The interest payment investors receive

c) The bond’s expiration date

d) The company’s stock value

Question 3

- **What happens at bond maturity?**

  a) The investor receives the bond’s face value back
  b) The bond becomes worthless
  c) The company issues new shares
  d) Interest payments stop permanently

Question 4

Which of these is a risk of owning bonds?
a) Interest rate changes
b) Unlimited profits
c) Constant inflation adjustment
d) None of the above

Question 5

Why do people invest in bonds?
a) To gamble for high profits
b) To earn steady income safely
c) To avoid taxes
d) To trade daily for quick gains