

Bonds

Super Satang



Do you know what these are?



Bonds...

Are debt securities that are issued by companies, municipalities, and governments to raise money. When you buy a bond, you are essentially loaning money to the issuer in exchange for regular interest payments and the return of the bond's face value at maturity.



Do you know what types of bonds there are?

There are:

Government bonds, municipal bonds, corporate bonds, Treasury bonds, and agency bonds just to name a few

Each type of bond has its own unique characteristics and risk factors





A bond

is issued by a
government
or corporation

to generate
funds

and is paid back to
the investor as
principal + interest.



What do you get from buying a bond?

Interest!!

The bond will say that they pay xx interest annually and they will pay that to you. It is determined when the bond is issued and is constant through the life of the bond



You may be wondering... when do I get my money back?

The bond will specify when it matures

This is when the person who borrowed it must pay the face value to the bondholder. It could be a couple of months or even 30 years



What can help you know if they can pay you back?

The credit rating!

The credit rating of a bond issuer is a measure of their creditworthiness and ability to make interest and principal payments

From AAA (Very good) to D (Default)



Price and Yield

The price of a bond can fluctuate based on interest rate changes and the creditworthiness of the issuer. The yield of a bond is the return on investment, calculated as the bond's annual interest payment divided by the bond's current market price



Risk!

Bonds can be risky because what happens if they cannot pay you back?

That is why it is important to look at their ... rating

And be smart with who you lend to



For example

Sri Lanka has a bond yield of 28%

America has a bond yield of around 2%

Would you invest in American or Sri Lankan bonds?



REGISTERED

5000



REGISTERED

5000

RAV 33537

AMERICAN AIRLINES, INC.

RAV 33537

4 1/4 % SUBORDINATED DEBENTURE DUE 1992
(CONVERTIBLE ON OR PRIOR TO JANUARY 1, 1980)

CUSIP 023771 AC 2

American Airlines, Inc., a corporation duly organized and existing under the laws of the State of Delaware (herein referred to as the "Company"), for value received, hereby promises to pay to

(SEE REVERSE FOR KEY TO ABBREVIATIONS)

CEDE & CO.

or registered assigns, the principal sum of

FIVE THOUSAND DOLLARS

at the office or agency of the Company in the Borough of Manhattan, The City of New York, on July 1, 1992, in such coin or currency of the United States of America as at the time of pay shall be legal tender for the payment of public and private debts, and to pay interest on said principal sum at the rate of 4 1/4% per annum, at said office or agency from the January 1 or July 1, as the case may be, next preceding the date of this Debenture, to which interest has been paid, unless the date hereof is a date to which interest has been paid, in which case from the date of this Debenture, or unless no interest has been paid on this Debenture, in which case from July 7, 1967, in like coin or currency, semi-annually on January 1 and July 1 of each year, until payment of said principal sum has been made or duly provided for. The interest so payable on any January 1 or July 1 will, subject to certain exceptions provided in the Indenture hereinafter referred to, be paid to the person in whose name this Debenture is registered at the close of business on the tenth day preceding such January 1 or July 1.

This Debenture shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been signed by the Trustee.
THE PROVISIONS OF THIS DEBENTURE ARE CONTINUED ON THE REVERSE HEREOF AND SUCH PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS THOUGH FULLY SET FORTH AT THIS PLACE.

In Witness Whereof, American Airlines, Inc. has caused this Debenture to be executed in its corporate name by the facsimile signature of its Chairman of the Board, its President or one of its Vice Presidents and impressed or imprinted with its corporate seal or facsimile thereof, attested by the manual or facsimile signature of its Secretary or an Assistant Secretary.
Dated: **JUL 26 1978**

TRUSTEE'S CERTIFICATE OF AUTHENTICATION
This is one of the Debentures described in the within-mentioned Indenture.
By: 
FIRST NATIONAL CITY BANK
As Trustee,
Authorized Officer



Attest:
By:  
Secretary President



Advantages of Bonds

Bonds provide a steady income stream of interest payments

= Passive income!



Advantages of Bonds

As the interest rate is fixed, future cash flow is predictable



Advantages of Bonds

Bonds tend to be less volatile than stocks so if you want to have a less risky investment option – bonds are great

A lot of investors use this to balance out growth stocks



Advantages of Bonds

They can lead to a diversified portfolio because you can invest in so many types of bonds

= spreads risk!



Advantages of Bonds

Bonds that are issued by the government tend to be a lot safer than the ones issued by companies



Disadvantages of Bonds

If the interest rates of the country rise, bond prices tend to go down!

What can you do to minimise this risk?

And do you know why the bond prices go down? – extra candy



Disadvantages of Bonds

There is a risk that the issuer will not be able to pay!



Disadvantages of Bonds

Lower risk = lower returns

Don't expect extremely high returns – bonds tend to have lower value appreciations than stocks



Disadvantages of Bonds

Long term bonds are affected by so many factors

= not very suitable for short term investors



Thanks!

