

# Bonds and Other Financial Assets

In this lesson, students will be able to identify characteristics of bonds and other financial assets.

Students will be able to identify and/or define the following terms:

Bonds

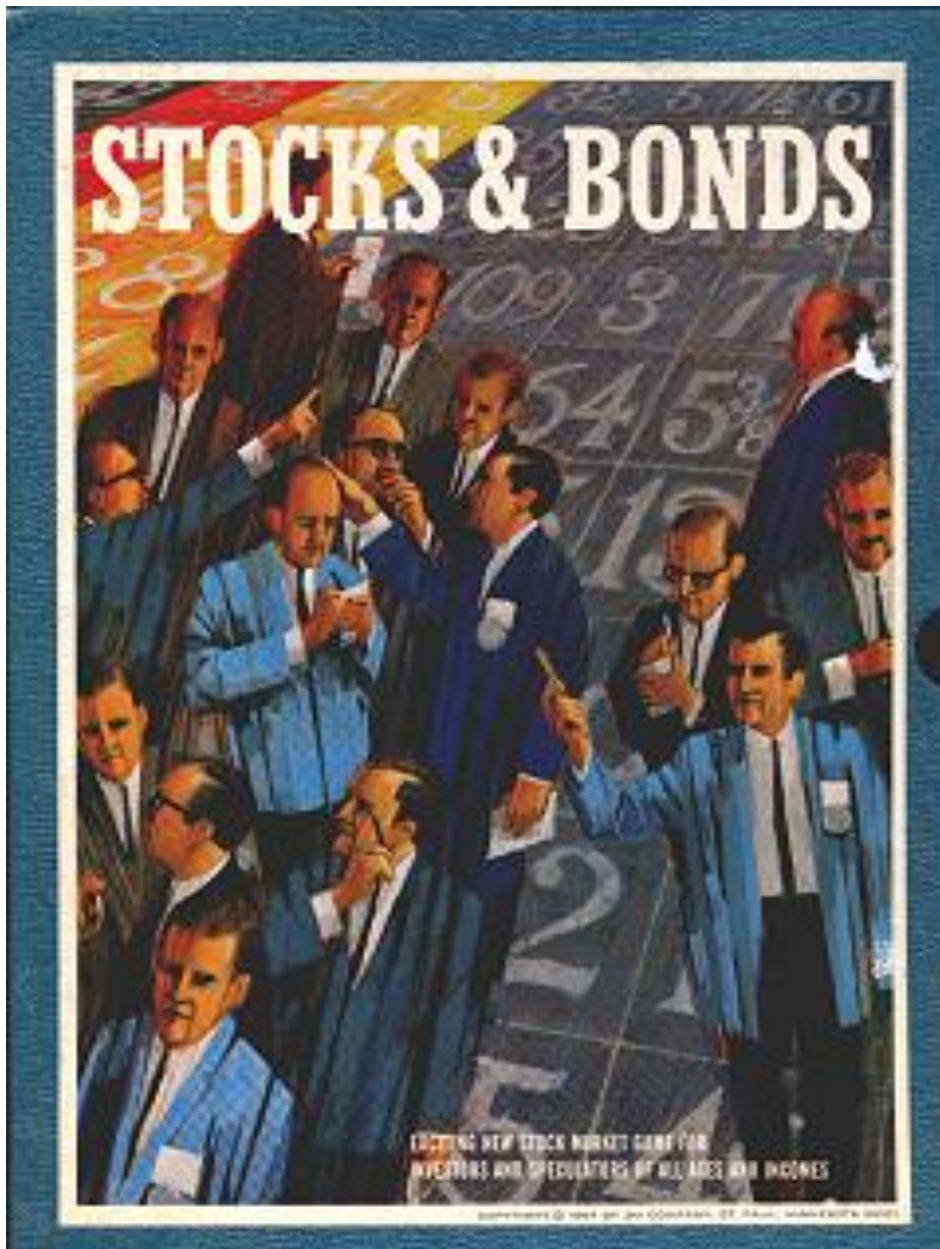
Par Value

Coupon Rate

Maturity

# Do Now:

- What are stocks?
  - Partial ownership of a company.



Do you remember  
the investment  
poem?

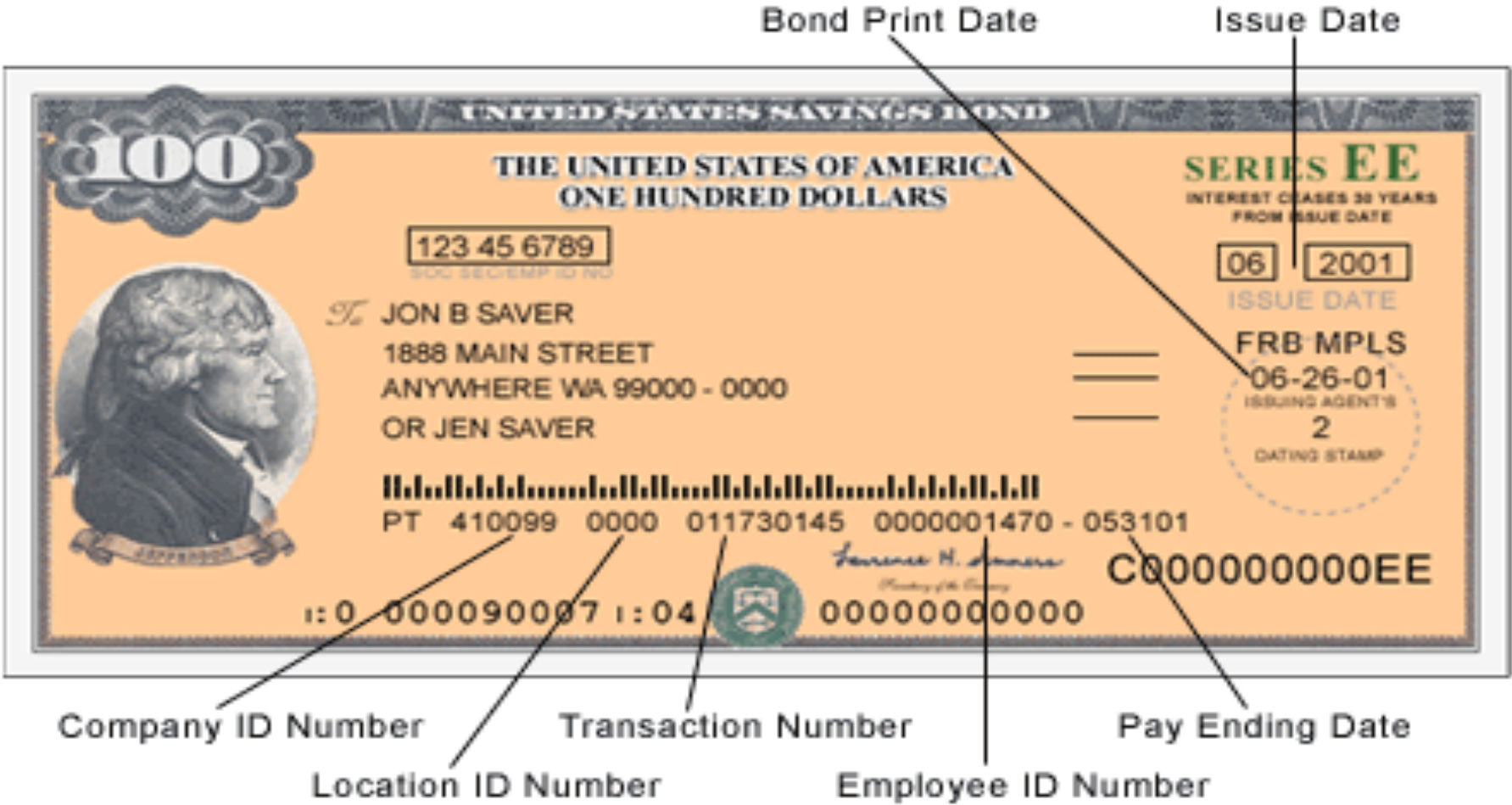
Stocks,  
you own.

Bonds,  
you loan.

# Bonds

- Bonds are loans.
- An investor loans money to a corporation or a government.
- The corporation or government must repay the loan with interest.

- This is a U.S. Savings Bond.
- When an investor buys this bond, he is loaning money to our Government.



# The Three Components of a Bond:

- **Par Value**: This is **principal** or original amount of the investment.
- **Coupon rate**: This is the **interest rate** on the bond.
- **Maturity**: This is the **end of the period**.
- This is the moment when the par value and the coupon rate are paid.

- To receive all of the possible interest accrued on the bond, an investor must wait until the bond matures.

## Discount Bond

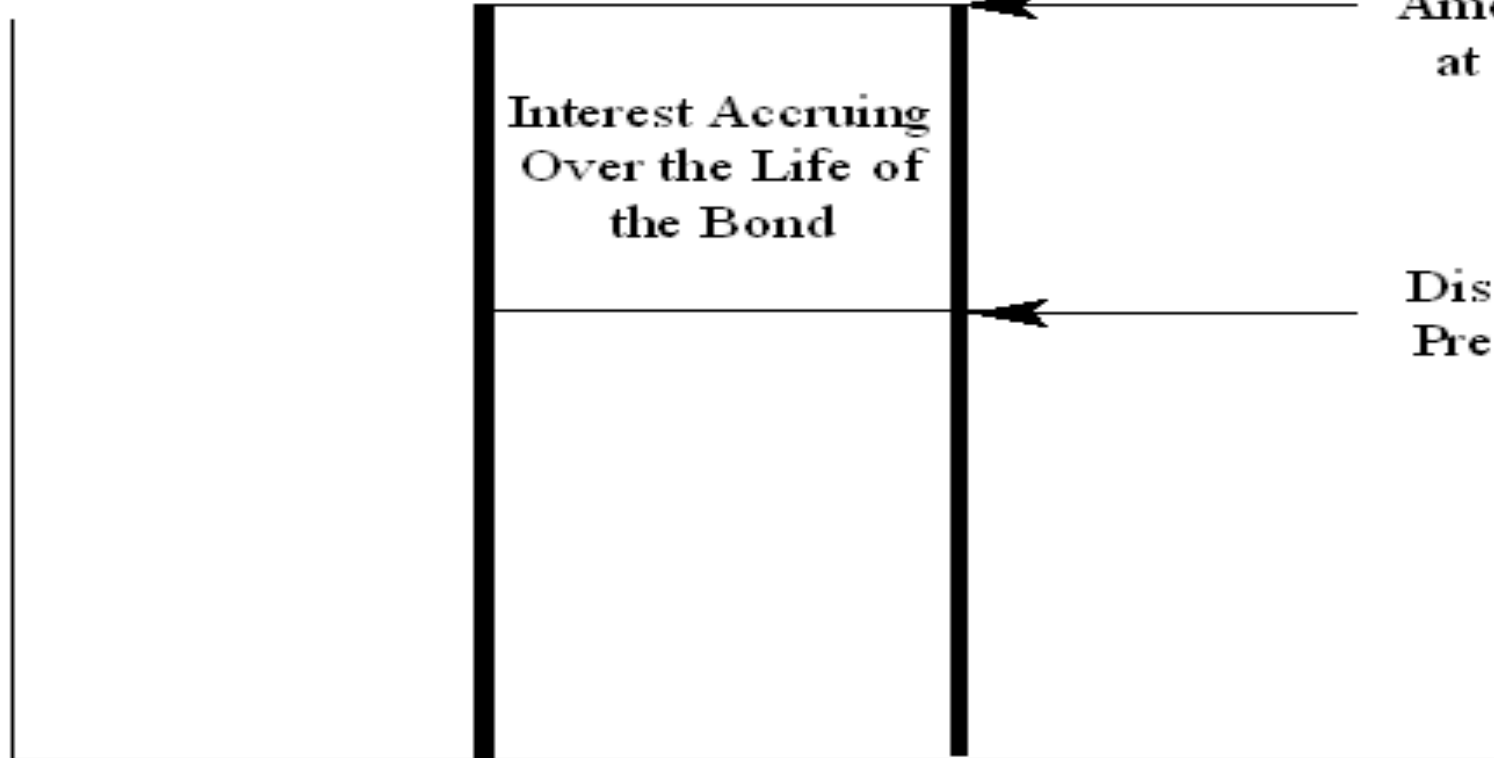
Value

Par

Interest Accruing  
Over the Life of  
the Bond

Notional or Face  
Amount (value  
at maturity)

Discounted or  
Present Value



# Bonds and Risk

- While there are many different types of bonds, most bonds are relatively safe investments.
- Due to the relative safety of bonds, investors do not make as much money investing in bonds as they do stocks.
- However, not all bonds are safe.



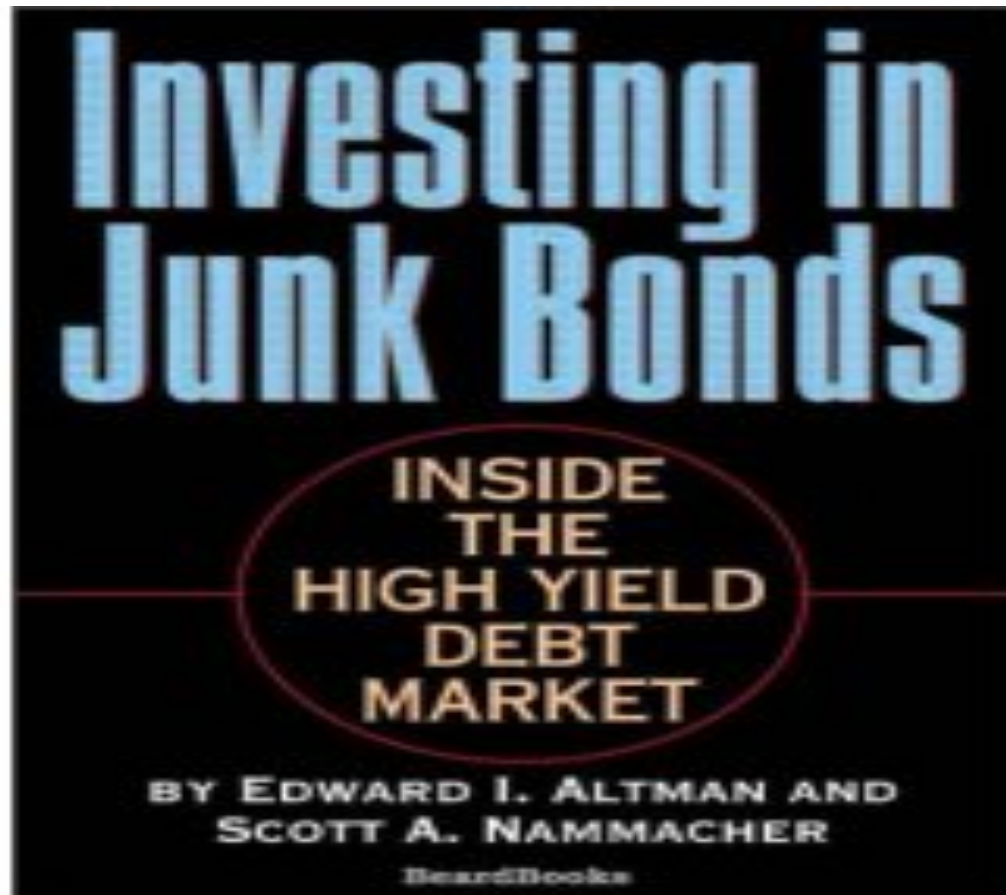
- The more likely the investment is to fail, the more money the investor would make it if succeeds.



# Types of Bonds

- An investor can buy U.S. Savings Bonds and U.S. Treasury Bonds.
- These are relatively safe investments.
- An investor can also buy a bond from a corporation.
- A junk bond is a highly risky bond issued from a failing corporation.

- Investors are more likely to lose their investments when they purchase junk bonds.
- However, if the company improves, the investor will make a huge profit.

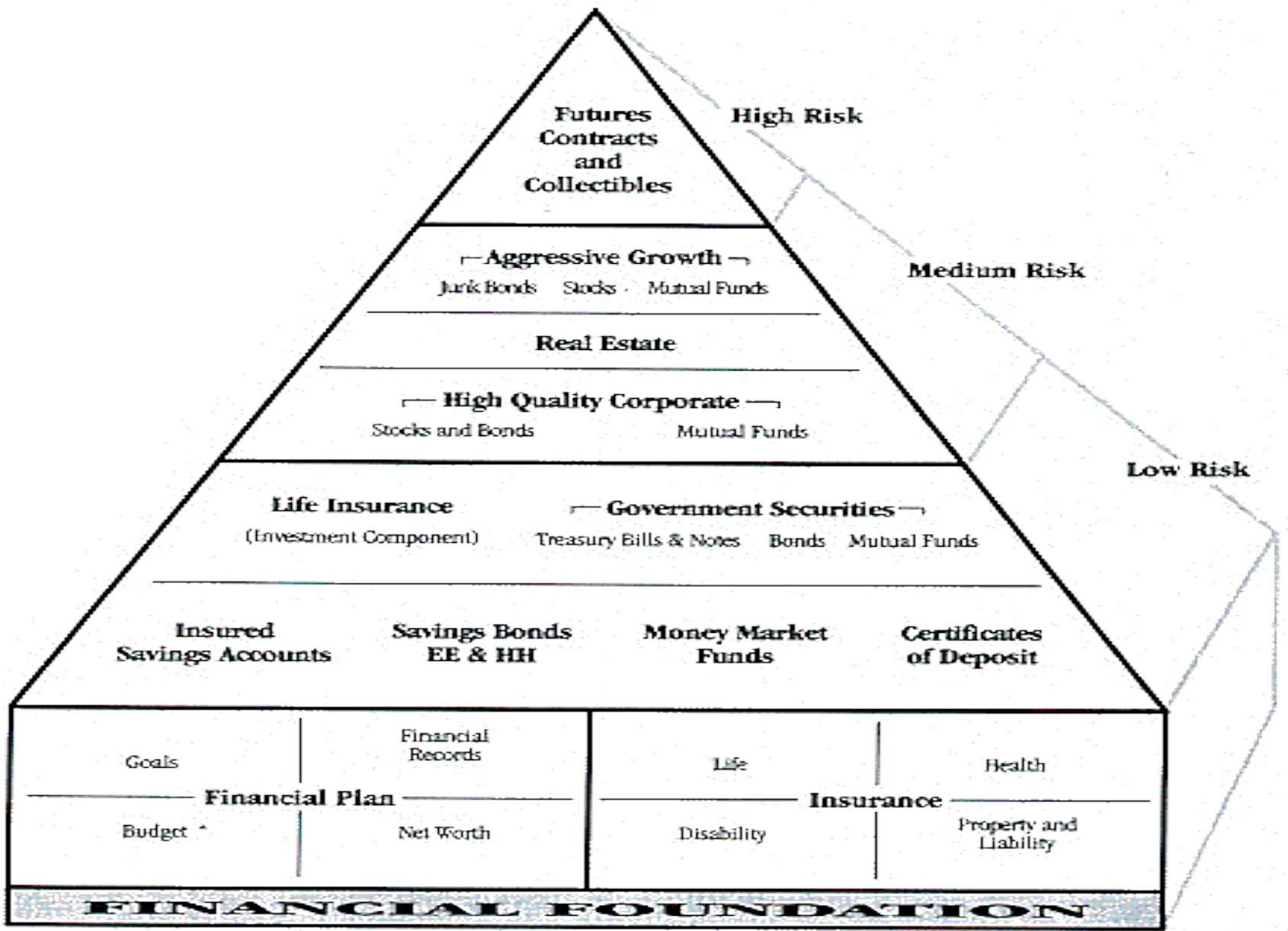


# Risk and Profit

- Investors risk their money hoping to make more money.
- High-risk investments are investments that are more likely to fail.
- However, higher risk leads to greater profits.
- Remember, trade-offs!

- While bonds, excluding junk bonds, are generally safe investments, all investment involves some element of risk.





# Questions for Reflection:

- What is a bond?
- List the three components of every bond.
- How does par value differ from the coupon rate?
- Why is maturity important for the investor?
- How do junk bonds differ from other bonds?
- What is the relationship between risk and profit?