Activity 4.3
Reading a Bond Table

1. What Is a Bond?

Bonds are issued when governments or companies want to borrow large amounts of money. The buyer of a bond lends money to the bond issuers. The bond itself is simply a certificate that legally establishes the borrowing transaction and specifies what will be repaid—typically, a specified amount of interest each year up to the maturity date of the bond, at which time the original sum is also due. For example, suppose you buy a $1,000 bond in Xerox Corporation with a 10-year maturity date at 6 percent interest. This means that the corporation guarantees to pay you $60 in interest per year for 10 years. (Usually, each year's interest is divided into two payments six months apart.) Finally, when the bond matures Xerox Corporation repays you the $1,000.

Unlike stocks, corporate bonds do not represent shares of ownership in a company. Like stocks, bonds are traded in financial markets. As trading goes on, the agreed-to interest paid on a bond stays the same. But the price of a bond may change and that will change the effective interest rate earned by someone who buys the bond. Consider that $1,000 Xerox bond with a stated 6 percent interest rate. The $60 annual payment is fixed. If the price of the bond goes up to $1,200, the bondholder still receives the agreed-to $60—but that is only 5 percent of $1,200 ($60 divided by $1,200). If the price of the bond falls from $1,000 to $800, the annual interest rate increases to 7.5 percent ($60 divided by $800).

You can see that the effective interest rates received by investors change when bond prices change. When bond prices are pushed higher, interest rates fall. When bond prices fall, interest rates rise. This is referred to as the *inverse relationship between bond prices and interest rates.*

2. Online Bond Listings

Here is a sample listing for a corporate bond issued by the communications company Sprint Nextel. (Bond information is not as widespread as stock information online, nor are listings standardized. However, useful information is available through the Bond Screener tool at http://finance.yahoo.com/bonds and at http://www.morningstar.com/topics/bonds.htm.)

SPRINT NEXTEL CORP — **As of 22-Dec**

OVERVIEW	
Price:	118.00
Coupon (%):	9.250
Maturity Date:	15-Apr-2022
Yield to Maturity (%):	6.884
Current Yield (%):	7.839
Rating from Rating Service:	BB
Coupon Payment Frequency:	Semi-Annual
First Coupon Date:	15-Oct-1992
Type:	Corporate
Callable:	No

Price: This is the price of the bond, quoted as a percentage of the original $1,000 price. To get the current price of this bond in dollars, take the quoted price, divide by 100 and multiply by $1,000. Or, to simplify, take the quoted price, stick a dollar sign in front of it, and add a zero on the end. A bond quoted at 115, for example, is selling for ($)1,150.

Coupon (%): This is the stated interest rate when the bond was issued. The Sprint Nextel bond's coupon rate of 9.250 percent means that the bondholder gets $92.50 annually from holding the bond. (The term dates back to a time when bond investors actually clipped paper coupons to turn in to receive their interest payments.)

Maturity Date: This is the date on which the last interest payment and the return of the bondholder's original investment will take place.

Yield to Maturity (%): This number represents the annual percentage return that would be received by an investor holding the bond until the maturity date, at which time the original principal is returned and the last interest payment is made. The actual return will be different if the bondholder sells before maturity—possibly higher and possibly lower.

Current Yield (%): This is the yearly interest on a bond divided by its current selling price. It shows the return a bondholder would get by buying today and holding the bond a year, if the bond's price remains steady. The actual yield a bondholder gets will typically be higher or lower because of changes in the bond's price.

Rating from Rating Service: Here the table reports a letter rating that can be as high as AAA or as low as D, assigned to reflect the riskiness of holding the bond. Ratings come from agencies such as the Fitch Group and Standard & Poor's. Different services use the same letter grades but capitalize them differently. For example, Aaa at Moody's Investor Service is the same rating as AAA at Standard & Poor's.

Coupon Payment Frequency: This reports how frequently interest payments are made on the bond. Most bonds pay every six months (semi-annually).

First Coupon Date: This is the date when the first regular interest payment was made on the bond.

Type: This entry classifies the bond as corporate, municipal or treasury.

Callable: This entry indicates whether the borrower can redeem or "call" the bond before maturity, as specified in the bond agreement. If interest rates fall, issuers may call bonds in order to borrow at the new and lower rate. Bond investors must remember that a bond with an attractive interest rate may not actually pay that high interest if it is callable.