

Women Building Wealth Forum

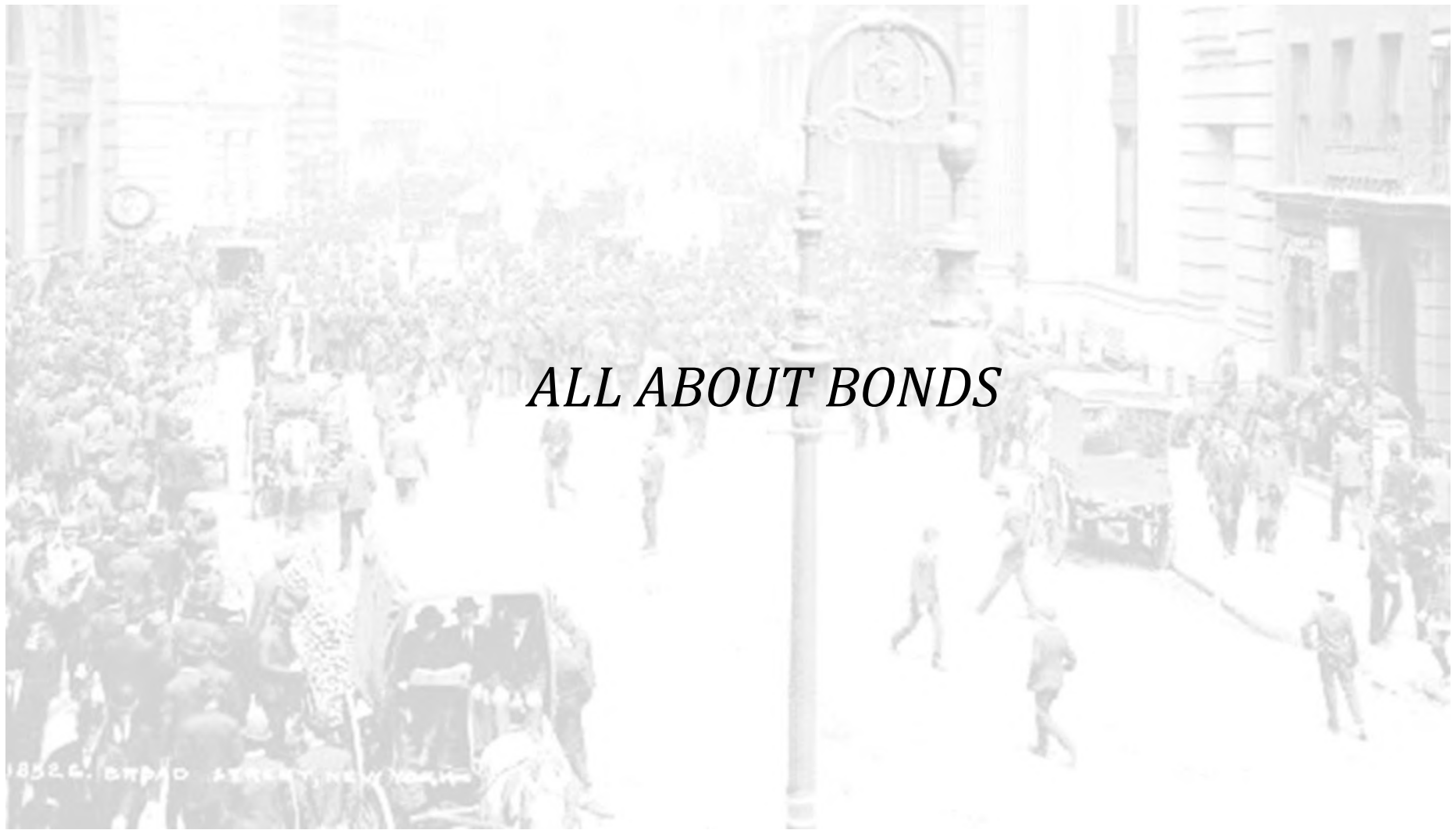
“All About Bonds”

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Presented – May 2018



**CURBSTONE FINANCIAL
MANAGEMENT CORPORATION**

Registered Investment Advisors



Curbstone Financial Management Corporation



WHAT IS A BOND?

Remember:

Stock = Ownership

Bond = Promise to pay



TYPICAL COUPON BOND

Issuer makes semi-annual payments
Pays face value at maturity

EXAMPLE:

\$1000 Face value $3\frac{3}{4}\%$
due 5/31/2048

Interest = \$37.50 annually
or \$18.75 semi-annually

Face value = \$1000 at maturity on
5/31/48 (30 years)



TERMS

Non-callable (bullet)

Callable

Sinking funds

Zero coupon



TYPES OF BONDS

Government

Corporate

High Yield

Government Agency

Municipal

Zero Coupon

WHAT'S THE DIFFERENCE?

The riskiness!

BOND RATINGS

They measure:

- Creditworthiness of the firm
- Probability of financial distress
- The likelihood of default



THE RATINGS

Very High Quality

High Quality

Speculative

Very Poor

S&P

AAA/AA

A/BBB

BB/B

CCC/D

Moody's

Aaa/Aa

A/Baa

Ba/B

Caa/C



IMPACT OF RATINGS

- Higher ratings = lower interest rate
- Investors can limit exposure to a particular range of ratings

WHAT IS...

Current yield – measure of return.

Yield to maturity – measure of the average rate of return that will be earned if held to maturity.



PRICING AND YIELD

Par = \$100

Premium = >\$100

Discount = <\$100

Par = coupon

Premium = yield < coupon

Discount = yield > coupon

Concept: Price vs Yield have an inverse relationship.

TAXABLE VS TAX-EXEMPT

TAXABLE

Governments

Agencies

Corporates

High Yield

Zero Coupon

TAX-EXEMPT

General Obligations

Revenue Bonds

Zero Coupon



CREATING A TAX ADVANTAGE

Taxable bonds best used with low income tax brackets or in tax-deferred accounts.

Tax-exempt bonds best used with high income brackets and in taxable accounts.

WHAT TO BUY

Determine if you need taxable or tax-exempt income.

Sound parameters –

single A or better
dollar price \$98 - \$101
maturity \leq 10 years



WHY BONDS

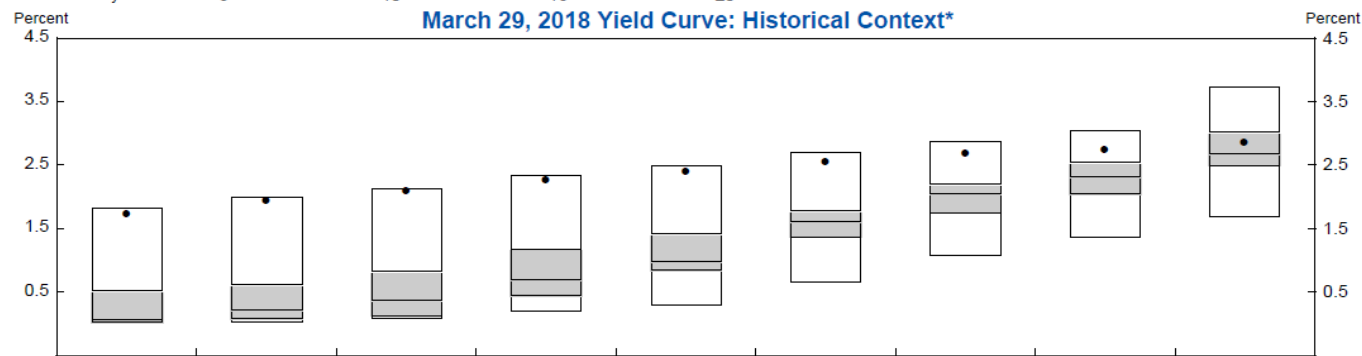
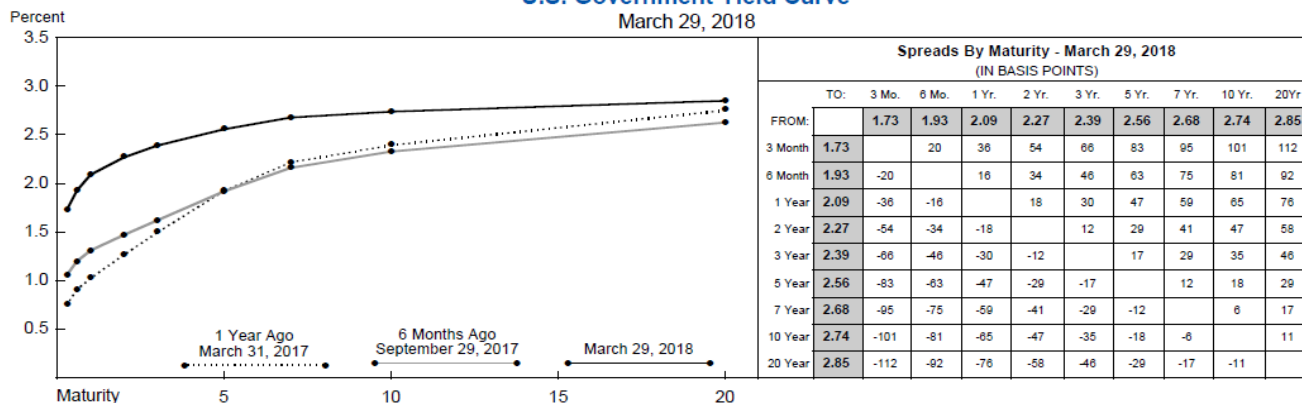
- Current income
- Create tax efficiencies
- Principal stability



Appendix

U.S. Government Yield Curve

March 29, 2018



Maturity	3 Month	6 Month	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year	20 Year
Maximum (Yield)	1.81	1.99	2.12	2.34	2.49	2.69	2.86	3.04	3.72
75th Percentile	0.51	0.62	0.82	1.18	1.42	1.78	2.19	2.54	3.01
Median (Yield)	0.07	0.22	0.36	0.70	0.98	1.61	2.04	2.31	2.68
25th Percentile	0.03	0.08	0.13	0.45	0.85	1.37	1.75	2.04	2.49
Minimum (Yield)	0.00	0.02	0.09	0.20	0.30	0.65	1.07	1.37	1.69
3/29/18 (Yield)	1.73	1.93	2.09	2.27	2.39	2.56	2.68	2.74	2.85
Latest	99th	99th	100th	99th	98th	97th	97th	90th	67th

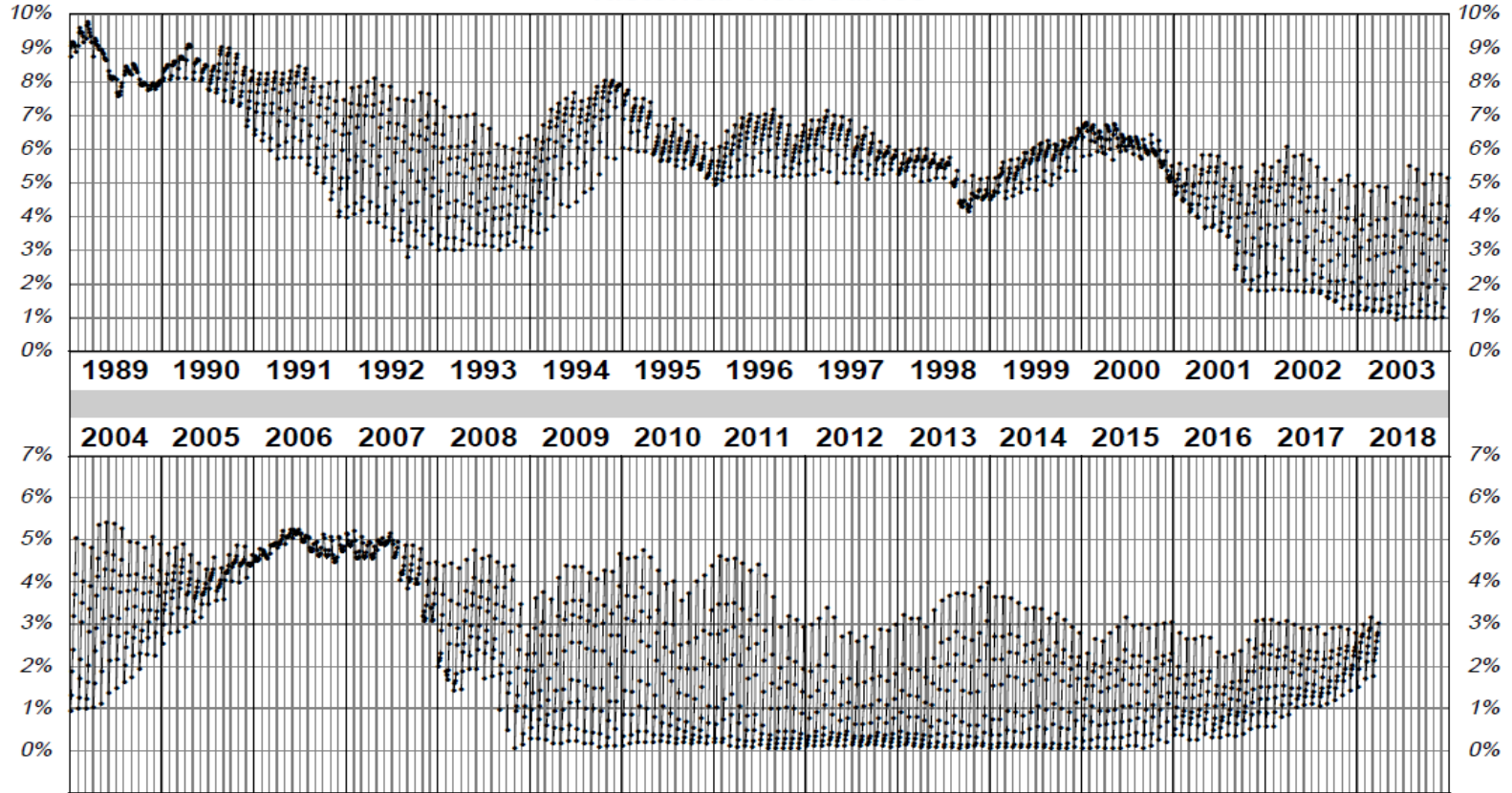
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*Data is based on 5 years of daily observations.

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U.S. Government Historical Yield Curves



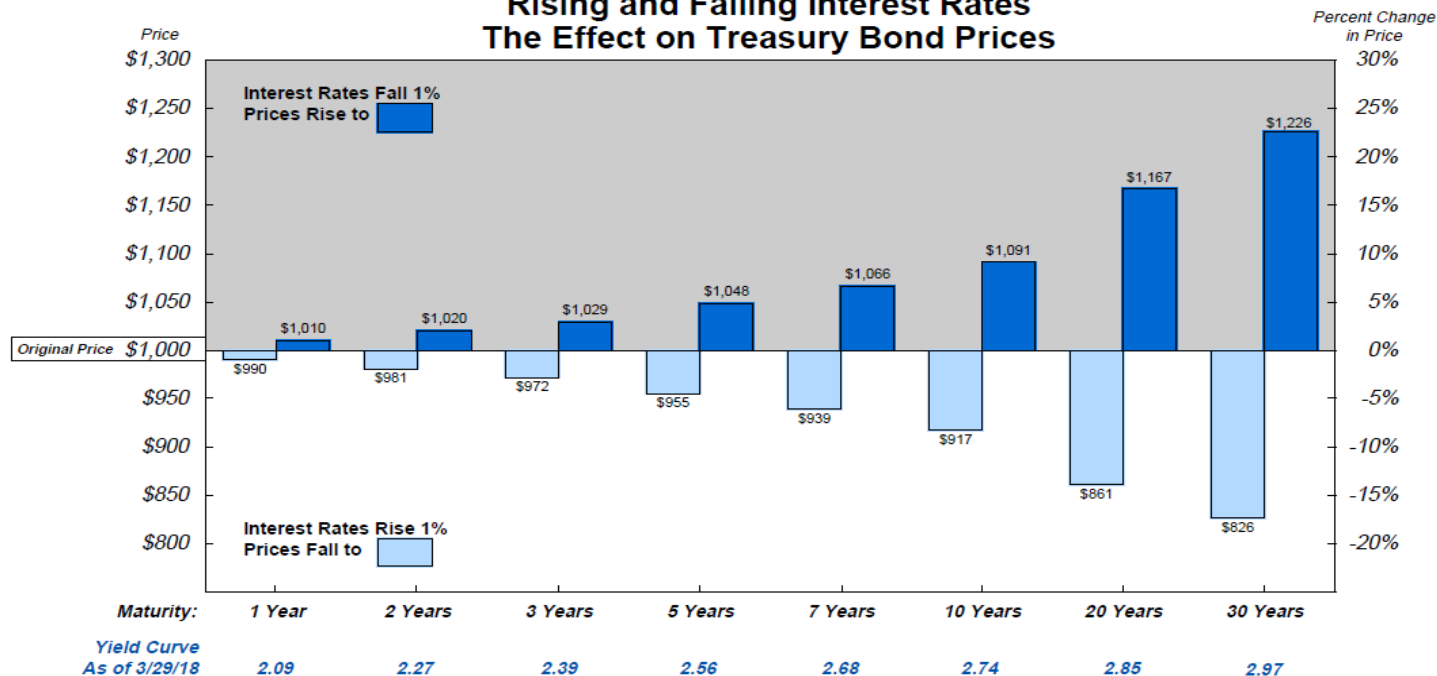
Month end observations: 3 Month, 1 Year, 2 Year, 3 Year, 5 Year, 7 Year, 10 Year and 30 Year (20 Year is utilized from 2/02 to 1/06 when the 30-year constant maturity series was discontinued)

Last Observations March 2018

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Rising and Falling Interest Rates The Effect on Treasury Bond Prices



	Maturity:	1 Year		2 Years		3 Years		5 Years		7 Years		10 Years		20 Years		30 Years	
		Price	% Chg.	Price	% Chg.	Price	% Chg.	Price	% Chg.	Price	% Chg.	Price	% Chg.	Price	% Chg.	Price	% Chg.
Falling Rates	-1.00%	\$1,010	1.00%	\$1,020	2.00%	\$1,029	2.90%	\$1,048	4.80%	\$1,066	6.60%	\$1,091	9.10%	\$1,167	16.70%	\$1,226	22.60%
	-0.50%	\$1,005	0.50%	\$1,010	1.00%	\$1,015	1.50%	\$1,024	2.40%	\$1,032	3.20%	\$1,045	4.50%	\$1,079	7.90%	\$1,106	10.60%
	-0.25%	\$1,002	0.20%	\$1,005	0.50%	\$1,007	0.70%	\$1,012	1.20%	\$1,016	1.60%	\$1,022	2.20%	\$1,039	3.90%	\$1,051	5.10%
Rising Rates	Original Price:	\$1,000		\$1,000		\$1,000		\$1,000		\$1,000		\$1,000		\$1,000		\$1,000	
	0.25%	\$998	-0.20%	\$995	-0.50%	\$993	-0.70%	\$988	-1.20%	\$984	-1.60%	\$979	-2.10%	\$963	-3.70%	\$952	-4.80%
	0.50%	\$995	-0.50%	\$990	-1.00%	\$986	-1.40%	\$977	-2.30%	\$969	-3.10%	\$958	-4.20%	\$928	-7.20%	\$907	-9.30%
	1.00%	\$990	-1.00%	\$981	-1.90%	\$972	-2.80%	\$955	-4.50%	\$939	-6.10%	\$917	-8.30%	\$861	-13.90%	\$826	-17.40%

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Thank You

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